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THE MAGAZINE OF WALL STREET

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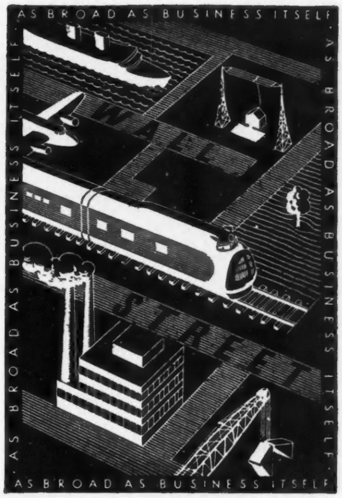


The Trend of Events

STOCKHOLDERS SPEAK UP . . . In recent issues we crystallized thoughts which had rankled us because of inroads on the rights of stockholders. The response of our readers has been tremendous, indicating that the situation is a vital one . . . that it should be brought out into the open and remedial measures taken.

Many thousands of investors have long been more or less passively discontented with their status as "absentee owners," a status under which in all too many cases corporate organization and procedures were democratic in legal form but not in spirit or fact. Why are stockholders at this particular time speaking out more and more insistently for their rights? For one thing, many dividends are being cut. But that can't be the whole reason. Dividends in the aggregate were being cut much more severely in the deep depression years, without any such acute stockholder resentment. The deeper reason relates to the war.

We are fighting a war not only for survival, but *survival as a representative democracy* which means *preservation of free enterprise* strongly entrenched as part of the four freedoms. We cheerfully surrender many peace-time rights to the Government but nevertheless in this kind of a war our basic democratic instincts in our relations with each other inevitably are sharpened and strengthened. In this environment reasoning people resent more acutely than ever what they believe to be special privilege for any group, whether it be labor unions, organized farmers or the informal brotherhood of corporate executives. We want, insist on and will fight for democracy *for all of us*—including the stockholder in his relationship to his company managers. In this respect, with few exceptions, the stockholder today has only technical democracy.

The exceptions, however few, are important—because they reflect a highly desirable trend that will not be denied. The corporate "Old Guard" will retreat slowly before it, stubbornly contesting every step toward corporate democratization, but they will retreat. In our way of life the right thing, the square thing, the fair-play thing does have a habit of prevailing. Stockholders—the real owners of American industry—will no longer be suppressed!

As one example of the constructive trend we speak of, note that the Johns-Manville Corporation has just held the third of its informal 1942 regional meetings of stockholders—meetings arranged by this management in the democratic *spirit,* in the conviction that it is right and proper for management to make it as easy as possible for the owners of the business to have personal contact

with it and to be fully informed of its affairs. It is not only the right attitude. It is good business besides. General Mills, Inc., is another shining example of corporate democracy. In fact, it pioneered regional stockholder meetings of this type. In contrast, there is the Woolworth management fighting a proposal of minority shareholders that this company's annual meeting be moved from inconvenient Watertown, N. Y., to New York City. At that, Watertown isn't so bad in comparison with some annual meeting locations. Did you ever hear of Spring Station, Kentucky? Few others did either, except the management of a certain corporation that thought it an ideal place for annual meetings! To managers who consider stockholders just a nuisance, naturally the best place for an annual meeting is a place few can get to.

There are many angles of corporate democracy—or rather the lack of it—that need a thorough airing not only in the interest of investors but the longer interest of our whole system of private corporate enterprise if it is to survive as something more than an adjunct of an all-supreme Government. With the help of the cooperative letters of our readers—more of which are invited—we are in process of attempting to work out a movement to further stockholders' interests . . . to uphold their rights, to correct abuses whether found in selfish management or political demagoguery. With your support, it will be carried out vigorously to achieve the representation so deserved in the protection of your equities which are the seed of thrift and sacrifice.

ANTI-INFLATION MOVES . . . Probably because of the great advance build-up it had in the newspapers, the President's message to Congress on the inflation threat seemed flat to us. He called for much higher taxation but in only one detail—itself not having any real bearing on inflation—did he offer new tax demands in specific form. This was the statement that no individual in war time should be permitted to have an income, after taxes, of more than $25,000 a year.

He said nothing about tackling the billions of inflation in the incomes of workers and farmers through a sales tax or reduced personal income tax exemptions. This problem is left in the lap of Congress, where it already was anyway. The same is true of corporate taxation. The gist of what he said on the latter was that profits should be kept at a reasonable rate, with "reasonable" being defined "at a low level." He also said that all profits, whether derived from war contracts or otherwise, "must be taxed to the utmost limit consistent with continued production." Since it is, of course, up to Congress to write in the figures—and the figures alone can have real tax meaning—there is nothing new here.

The President does not want wage control legislation at this time, and that also is no surprise. He calls for a "stabilization" of present wages—which the War Labor Board has been raising rather consistently—but banks on keeping wage kiting in check through informal pressure on the union leaders. He likewise wants "stabilization" of farm prices—at the present high level. In general the message treads very lightly on the toes of organized labor and organized farmers—the big voting groups which happen to have done more to speed inflation than any other elements in our economy.

The blanket price ceilings will appear to work against inflation for a while, but cannot be maintained indefinitely unless wage costs are in fact stabilized. That remains to be seen. The most essential control of all is to tax "where the money is," by digging deeply into the spending money of the beloved "masses." It also remains to be seen whether Congress has the nerve to do that—on its own and with precious little help from the Administration. It looks like we are going to have a try at treating the symptoms of inflation and do too little too late about the causes.

RATIONING IS HERE . . . Rationing in the fullest sense of the word has at last descended upon the American people and, as the Administration has urged, the war is being definitely brought to every home in the land. Rationing of automobile tires and of automobiles hasn't been quite the same. In fact, they were virtually a prohibition, and accepted as such. Now, when you are limited in the quantity of sugar and of gasoline you can purchase, with similar coupon books in the offing for food and clothing, the question becomes much more personal.

Inability to buy new tires and new automobiles made some changes in the American way of life. Most automobile tires were good for many thousands of miles of wear, and second-hand automobiles are still available to some buyers. But sugar and gasoline are another matter indeed. Mother must plan her preserving and baking accordingly and the family may have to forego that annual vacation in the car. C'est le guerre.

At the same time most of us realize that rationing now, while inventories are still adequate, may mean the difference between a little for all or none at all later on. Therefore, we have no sympathy to waste, no crocodile tears to shed for those who can only use two lumps of sugar in their coffee or have to walk to the store to buy a package of cigarettes. Our sympathy goes to the filling station people, those who operate resorts and other places of amusement depending, to a large measure, upon the trade of motorists. They will be the real sufferers.

If, as economists point out, gasoline rationing will change the habits of 4 out of 10 Americans, that is unfortunate perhaps, but it will, we hope, be but temporary. If petroleum is not sent abroad to United Nations fighting forces and used in our own ships, planes and tanks at home, the habits of 100 per cent of the American people will be changed—and not on a temporary basis.

The loss of gasoline taxes will be a serious blow to the 17 states affected by the rationing order. Seven of the 17 derive 25 per cent or more of their total income from this source. The loss of revenue is going to be felt, probably in municipal and state bond issues, but in states where income taxes are in force, increased national income will partially offset that loss.

As I See It!

BY CHARLES BENEDICT

TAKING THE OFFENSIVE

HITLER'S speech was indicative of the jittery state of affairs that exists in Germany. And that to press our advantage home now may enable us to win this war in a much shorter time than we had hoped—possibly even this year.

Thus far we have launched a highly successful war of nerves. It began with the arrival of MacArthur in Australia. The whole psychology in the Pacific changed immediately from discouragement to hope with the will to win—and the faith that we would succeed in our efforts. Next—the increasing potency of our aircraft—the daring raids on the Philippines with Corregidor still holding out. The air attack on Japan itself—the intensifying of the Commando raids which suggest a coming invasion to a nervous foe—the news of General Marshall in London with Mr. Hopkins to back him up on lend lease. For the purpose of launching a campaign in the West?

Step by step we are beginning to take the initiative away from the Axis. For the first time we have our enemies guessing. Now it is Hitler who is wondering where we are going to strike. Japan who is worrying about the extent of our air power and the proximity of the bases from which we can bomb her homeland—cripple her industry and render her people as desolate and broken as those others whose security Nippon has destroyed.

BUT, a war of nerves is not enough. It has got to be followed up with offensive action that will cause both the Nazis and Japan to divert their forces—to meet the threat to their own position. Pin pricks are not enough. We must strike in sufficient strength to divert the enemy —to win victories.

We begin with the advantage of knowing that Hitler's unpreparedness to take the offensive in Africa last January was due to the severe losses suffered in Russia this past winter—particularly the heavy losses in man power, a weakness that made it necessary to call on the captive governments to raise new armies for his spring drive which has not materialized yet.

Unrest is rife in Germany. Hitler's unexpected address on Sunday was an attempt to quiet it. For there is hardly a German family today that has not lost loved ones in the war. And great battles are still to be fought. How much further will the disillusioned people go along with Hitler?

As Commander in Chief of the armies in Russia he overrode the general staff and is responsible for the retreat which brought near disaster to Germany.

The same is true of his go-ahead signal to Japan which was also a foolhardy piece of business—an expedient which may cost Germany dearly.

These mistakes have put Hitler on the defensive and liable to further dangerous and harmful decisions.

His most recent blunder was to set Laval up in Petain's place as ruler of France. It almost seems like an act of desperation, for an "appeased" Vichy was a valuable source of food supplies, raw materials and other imports so essential to Germany's economy today.

Here too the gamble may well turn out disastrously for Hitler since the allegiance of French Africa was a precarious one at best. A Petain venerated and loved could have held it. But not Laval. Already contempt and hatred for this man has brought disruption in the French diplomatic corps who are everywhere throwing in their lot with the Free French. And this dissension is spreading through all the col- (*Please turn to page* 102)

Press Assn. Photo

Market Enters Decisive Phase

The President's inflation-control message has left investors and speculators pretty much "as you were." We think the market is fairly close to a recovery period but the technical evidence is still negative.

BY A. T. MILLER

"The Stock Exchange here has undergone a decided change to a bullish feeling in keeping with the growing offensive spirit displayed by the United Nations."

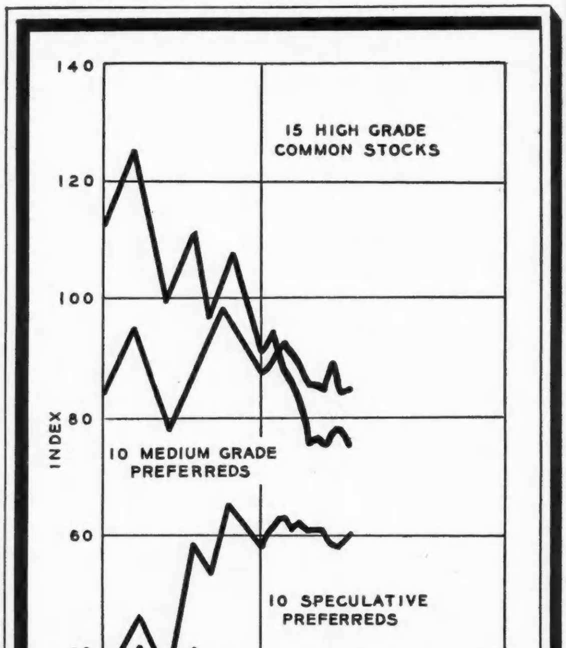
No, dear reader, this is not a fairy story. It's the opening sentence of a financial correspondent's comment on the London stock market in a current dispatch to the New York Times.

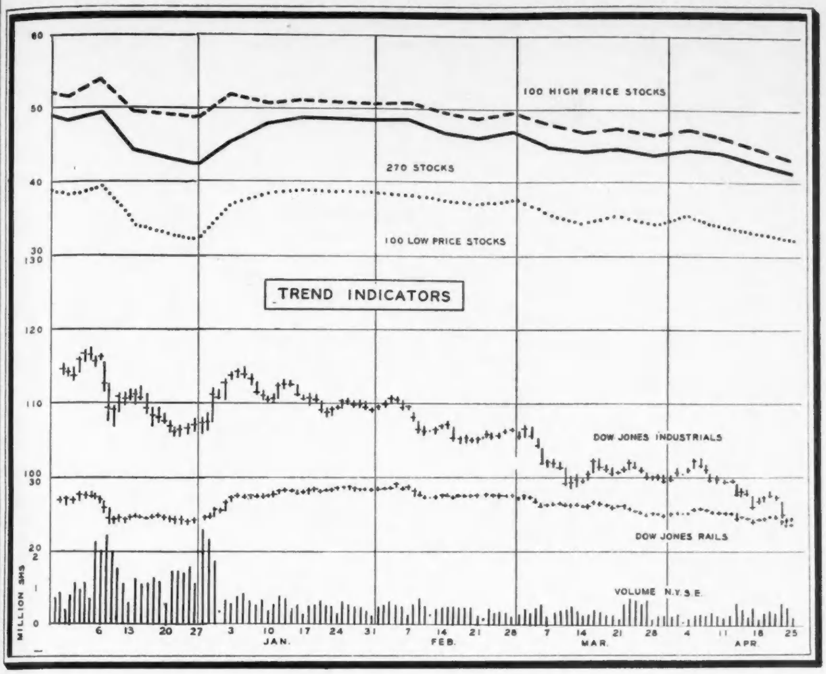
One wonders what the British have to feel cheerful about that we haven't got. True, they have—and long have had—100 per cent excess profits taxes for corporations, a higher normal corporate tax than we have and far higher personal income taxes. If that is what it takes to make a market feel better, ours ought to feel better before long because we certainly are headed for much higher taxes! But while we may approach or match the severity of British corporate taxes, it is very improbable that Congress will go the British one better and thus vote tax suicide for American corporate enterprise.

Or perhaps the British investors and speculators feel good because the last vestige of Britain's colonial empire seems doomed whichever way the war comes out. Or maybe it's because they get a kick out of being so much closer to the sound of the bombs and guns than we are.

At any rate the fact that the London market views the world prospect with so much more aplomb than does the American market becomes daily a more striking paradox. At this writing—with attention focused fearfully on the President's anti-inflation and soak-the-corporate-profits program—the Dow-Jones industrial average is some 40 points lower than it was the day before the war started in the autumn of 1939, the London Financial New's index of 30 industrials is only 1.2 points under where it stood just before the war broke out; the Dow average is 61 points under its top level of the war period and about 18 points under the lowest level reached in the spring of 1940 after the collapse of France, while London industrials are less than 7 points under the highest level of the war period and 28 points above the 1940 low. Completing the contrast, London industrials are 1.2 points higher than a month ago and 10 points higher than a year ago, with the Dow industrials 7 points lower than a month ago and 28 points lower than a year ago.

There is an end, of course, to everything human—including American bear markets. Though this one has seemed to have more lives than the proverbial cat, its time must surely be running out. There is not yet convincing technical evidence to permit us to feel confident that the worst in average stock prices has been seen; and since the market quite obviously remains on the defensive, we see no justification as yet for changing our cautious watchful waiting policy outlined in our previous recent analyses.





The market is very thin and is, of course, still sensitive to the contingency of news shocks. Our taxation prospect will not be fully clarified in Congress for some weeks; and meanwhile, with the President's message out of the way, the tax factor would not of itself preclude a substantial intermediate recovery in the near future—provided new war developments are not too dreary.

We have a feeling—hunch you might call it—that our fortunes of war already have passed their lowest point and that Germany, with a real bear by the tail, is on the down grade, although probably capable of launching yet another most formidable offensive. Hitler's latest defensive tirade strengthens this hunch. Of course, any single Hitler speech is suspect—but it does seem significant that in speech after speech since the Nazis ran into big trouble in Russia last autmn the Fuehrer has concentrated increasingly on alibis and defense of himself to his people. It is not the theme one would logically expect of a really confident dictator and war lord. Maybe there is something in the Russian quip that "the Nazis have now launched their spring offensive—against the German people."

We have a feeling that this spring, maybe within a matter of days, will see the lowest average stock prices of the year. Moreover, it may just be *possible* that they were seen last week—though we have no conviction as to that one way or the other and we are writing these views under the impact of new Administration moves that we want a little time to mull over.

In the Roosevelt message the stock market, as often happens, has come to a keenly anticipated milestone—and found few road directions on it. The President's remarks on corporate taxation were very general in nature. Profits of all types of corporations, he said, "must be taxed to the utmost limit consistent with continued production." That, of course, leaves it up to Congress to make the specific decision as to just what levies constitute a maximum consistent with continuing private enterprise production. In short, there is nothing new here.

It was widely reported last week that Mr. Roosevelt would demand a 99 per cent excess profits tax on earnings above a 6 per cent return on invested capital—but there was no hint of any such drive in his message. In fact one sentence seems to infer that he favors the Treasury tax proposals made public some time ago—*"Under the proposed new tax law* (italics ours) we seek to take by taxation all undue or excess profits."

There is no secret about the fact that the President and the Secretary of the Treasury would like to define a "reasonable profit" as 6 per cent, or less, return on capital investment, doing away with the present average earnings option. This issue has been thoroughly aired in Congress over the past two years. The fact that the President did not publicly reopen it suggests to us that he saw no prospect of getting it this year.

We stick to our notion that Congress will retain the present two-option system of excess profits taxes, that it will write excess profits tax rates at least as high a the Treasury has asked and maybe a bit higher, that it will *not* go along with the Treasury on combined normal and war-surtaxes as high as the proposed 55 per cent, and that the final legislation—even with a sales tax—will fall short of the Treasury's revenue goal. However, there is one point of Congressional dissatisfaction with the present excess profits tax method and that is that it does not make any real distinction between profits derived from war contracts and profits which are only partially and incidentally due to the general economic activity created by Federal war spending. Under this system, for example, General Foods pays a higher percentage of its income in Federal taxes than does United States Steel. It would not be surprising if the issue of more severely limiting war-contract profits, in one way or another, remains with us.

The over-all fact should be kept in mind that the broader market averages are well below the average level of 1934—in fact under the worst level of 1934—in which year aggregate industrial profits were about one-quarter the total of 1941. In other words, as we have observed before, on a tax-earnings basis the market as a whole—despite individual exceptions—has discounted a reduction of 75 per cent from last year's earning power. We go on record with the prediction that no war-time tax legislation will of itself reduce 1941's aggregate business earning power by as much as 75 per cent. We say "of itself" because managers of war-active corporations have—and are now exercising—their option of making actual earning power look (*Please turn to page* 102)

1942 Earnings and Dividend Prospects—In the Face of Freezing of Profits, Wages and Prices

BY WARD GATES

War for profit and profits in war, often confused, have absolutely no relation one to the other. That nations go to war for profit is undisputable. Even the defender nation is waging a war of this character. It is to her interest to defend her soil, her institutions and her right to profit by her own efforts. If that were all that is meant by war for profit it would be easily understandable, a simple matter of arithmetic. But the question of profits and war, unfortunately, doesn't end just there.

Prior to the outbreak of the present world conflict, you will recall, there was a veritable epidemic of magazine articles, books, speeches and even radio programs and cinema films, all pacifist inspired, attempting to show that wars are the result of profiteers, persons in many lands anxious to accumulate enormous profits through the misery and suffering of millions. If the present war has accomplished nothing else, it has "debunked" that all-embracing canard.

All-out war, if I may be pardoned for using that moth-eaten phrase, means the all-out employment of arms and economic forces. It means all-out freezing of prices and values, the deadly certainty that inflation cannot be killed by mere passage of laws, and changes the entire economic and business pattern of a nation—to the detriment of free enterprise—the life blood of successful business. Freezing of prices, of wages, of profits and allocation of raw materials and priorities on transportation and shipping are as much a part of the war pattern as the battle plans perfected by the general staff and executed in the field by men under enemy fire.

While investments are dependent upon the economic life of the nation, it is not true that the economic life of the nation is solely dependent upon the quality of privately invested capital. Under our present economic situation, which was not conceived at Pearl Harbor but can be traced back nearly a decade, government capital plays an almost equally important role in national prosperity.

In taking either a long or a short range view of potential earnings and dividends under our present war-time economy with its attendant freezing of prices and profits—to say nothing of the informal wage control which the President says he will bank on—we are confronted with the unequivocal fact that both earnings

and dividends, especially as applied to war industries, will be strictly limited. Whether, as suggested, Congress fixes war profits at a 6 or an 8 per cent basis, collecting 100 per cent of all profits in excess of that amount; or whether through other forms of taxation and regulation a ceiling is placed upon earnings, the net result is the same—lower income on that type of investment.

During 1941 the expansion of civilian and war industries was reflected in the large growth of income in all economic groups. Corporations reached an all-time high in volume of business transacted, and corporate net income showed a substantial increase. While costs of materials and wages rose in 1941, prices of finished products rose also. Despite higher taxes, manufacturing and mining profits in 1941 were about one-fifth above 1940. Net income of railroads, which in 1940 was relatively low, increased one and one-half times in 1941. Actually railroad income in 1941, which reached $500,000,000, was considerably higher than for any years in the past decade. Small declines in net income were shown among public utility companies, such as electric power, telephone and transit. The Department of Commerce estimates for all corporations in the United States that net income retained was 2.6 billion dollars in 1941, or about double the 1940 amount. They attribute the caution in dividend policy to need for larger working capital.

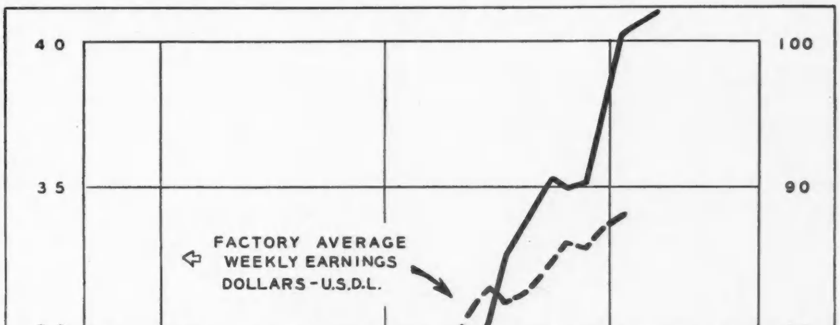
That, roughly, is the picture of 1941 during the defense period and before actual war conditions went into effect. Now we are at war. Shortages of raw materials are evident at every hand; systems of rationing have been in force for months in industry, and will soon become more evident in general practice. We are on the very threshold of entering a new and unfamiliar world of business; a world devoid of economic liberty under the guidance of free play of our economic forces. We will find ourselves in a world sans economic freedom and governed by economic forces as of late spring, 1942. That will be an important date in our economic life and in the future we will be inclined to date our economic status as of before or after the spring of 1942, the same as the fall of 1929 has become synonymous of another important economic epoch in our history.

The newly announced control program has many ramifications and political complexities, as its authors know only too well. The foundation for their anticipatory headaches is the fact that the crux of the ceiling problem is that, at some point, as the prices fixed by a free economy now become increasingly maladjusted to a rapidly changing economy, it will become not only unfair, but out of the question to expect ceilings to be enforced by mere patriotism on the part of manufacturer, wholesaler, retailer or consumer. When that time arrives, politicians know, the final necessities of price control will have to be dealt with by a complete licensing and rationing, rigid mopping up of a large part of consumer income by way of taxes and forced savings, which is political headache enough for any party. Despite the present anti-inflation publicity, the final controls will hardly take shape for months to come.

All of the big guns of Congress and the Administration are trained on a single target—INFLATION. With millions of dollars more in circulation now, due to war work and peak employment, and with the possibility that if something isn't done within a year there will be at least two dollars in the hands of American consumers for one dollar's worth of available goods, some form of legislation is necessary to safeguard our currency.

Canada's Example

Our neighbors to the North have, after four months of all-out effort, aroused the Canadian people to the point where they appear to have checked the danger of inflation and increased cost of living. After considerable debate in Parliament it was decided that nothing could be accomplished by piecemeal or partial price-control methods, so a daring experiment was conducted when a definite ceiling was established on all wages, salaries, services, rents and virtually everything that has to do with the life of the nation. It took considerable persuasion to convince the liberty-loving Canadians that such drastic measures were necessary, but, when it was pointed out to them that the Dominion was facing economic disaster during the world period while employment and buying power was skyrocketing to new levels at the same time demands for consumer goods, of which there were acute shortages, added to the confusion, employers and wage earners alike approved the step.



As in this country, women do 80 per cent of the purchasing. Their support was enlisted first of all. With their cooperation and sympathy assured wage earners and employers fell into line.

An important part in the Canadian economic set-up of price and wage control is subsidy. In the past Canada has had a "wage bonus" scheme, which called for the payment of weekly bonuses as cost of living indexes fluctuated. It was decided, however, such a scheme merely contributed to the inflation spiral by putting more money into circulation and thus giving added incentive to price boosts. Under the present set-up the money is now paid at the other end of the line, so that prices may remain unchanged and wages remain stabilized. As a result the subsidy benefits the consumer, since payment of any subsidy is accompanied by an examination of profits, which means profit control as a part of the general picture. This is done despite the fact Canadian income tax on excess profits is 84 per cent. This makes it apparent that the government would be contributing a minimum of 16 per cent in event of any excess profits being shown by subsidy beneficiaries, and this enables the government to keep profits under control.

Here Are Results

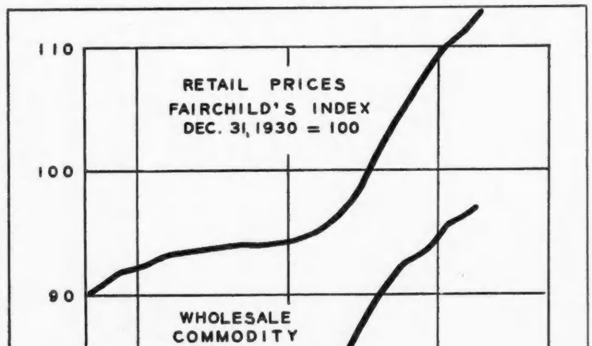
Here is the result as applied to living costs. Using 100 as a par base, as of August, 1939, living cost increased to 107.1 by December, 1940. From April, 1941, to November, 1941, it rose more than 8 points to 115.5. Almost at once, with the new law in effect, prices and wages began to show stabilization and the index for last December dropped to 114.9. In January, 1942, it was 114.8. During the same period in the United Kingdom, without control, the index has soared to 130, and that of the United States has evidenced a steady rise until it approaches that of Canada.

Bear in mind, however, that no wages or prices are, or have been, "fixed" by the Wartime Prices and Control Board of Canada. The prices and wages that prevail, and over which there is now a ceiling, were established by sellers and buyers themselves, or by employers and employees. Whatever salaries or wages men or women were receiving during the period between September 15, 1941, and October 11, 1941, were used as a "basic period" and constitute the ceiling. This goes for the top executives as well as the hourly worker. Bonuses are prohibited, unless it can be shown that a system of bonus payments existed prior to the establishment of the "basic period." If the boss cannot raise his own salary, he certainly can't boost that of a worker. The same system of "basic period" applies to rents, utilities, plumbing, heating, painting and repairs of any kind, as well as such services as barbering, hairdressing, laundry work, etc., etc.

As has been pointed out by economists, columnists and businessmen here, the complex problem of price control and inflation cannot be handled by Mr. Henderson's office alone, or even by the Treasury alone. Because, during wartime, there is more spending money available than there are consumer goods and services, it is necessary to exercise a control over both. To do this successfuly we must set up a sort of general staff empowered and able to lay down a definite policy for the whole field where agencies like the OPA and Treasury operate. When such a policy is established it would be well worth while to consider the advice of Bernard M. Baruch, who says such a program will not halt inflation unless it is wedded to an adequate tax program. Speed, Mr. Baruch pointed out, is essential and rationing takes too long to become effective. He has been a persistent advocate of all-out control instead of piecemeal efforts, but made it clear, however, that he is not in favor of universal price freezing, contending such a step is impractical unless provision can be made for adjustments in individual cases. At this stage of the inflation cycle, he insists, such adjustments should be in a generally downward direction.

Two other points affecting (*Please turn to page* 103)

Harris & Ewing Photo.



Gendreau Photo.

IF WAR IS PROLONGED

BY ALEXANDER COLVIN

(Editor's Note: This is the second of two articles dealing with the foreseeable effects of peace upon our economic, political and social conditions.)

If you have ever watched a thoroughbred racing around the track, coming from behind with a burst of speed to cross the finish line a length ahead of its nearest rival, breathing hard but proud and erect, ready to race again if called upon until its stout heart breaks, you know the part the United States will play in this war and should play in the peace which will follow. The role of a thoroughbred is running a clean race, coming from behind to win and then, still upon its feet, being ready to defend, at any cost, the principles for which it fought.

In the first of these two articles, "If Peace Comes Soon," the premise assumed was that peace would come before the end of the current year. This time, our assumption is that the war will last for another two years or more, but less than five years from the date of the treacherous attack upon Pearl Harbor.

If, in arriving at a definite conclusion we must accept certain conditions, or facts as self-evident, we must also assume that before a victorious peace the United Nations will lose a few more battles, some of them important and others less consequential. We must assume that our losses will include not only manpower but considerable equipment. We must assume that, instead of diminishing, our war effort will have to be accelerated with each passing month and that there will be no such thing as a peak of production during the entire period of hostilities. And while we are about it we must remember there will be no moratorium on brains and inventive genius nor will all of our efforts be spent on war developments.

The old way of life is dead. It will never return. To sigh for the return of the "good old days" when business was business and government was government and never the twain met—unless something went wrong; for modest taxes and a firm belief that America was the greatest country in the world because no one "would dare to attack us"—and the feeling that the Atlantic and the Pacific Oceans made us invulnerable, is to sigh for the moon itself. Let the dead bury the dead and not waste time thinking of tomorrow in terms of yesterday. The fallacy I have detected in most economic arguments as to what will happen when the war is over is the fact that all predictions, all estimates and portrayals are predicated upon the past—a yardstick of no great value.

Let us explode some of these fallacies right now. One of the most persistent of the fallacious arguments is that world economics can be divorced from world politics. The two are actually indivisible. National economics and national politics are in the same condition. When this war ends we will not only be an economic factor

in the world situation but a political one as well. That is the role we enjoy today, whether we like it or not. Isolationism is dead. The day is gone when we can say: "We have no interest in what goes on in Europe, in Asia, in Africa or anywhere else."

The attack upon Pearl Harbor was no accident, no suddenly conceived Japanese strategy, but part of a world plan aligning the New Order of the Axis against the Good Order of the Democracies. The idea was conceived several decades ago, germinated and took root during the World War, sprouted into a green shoot during the League of Nations heyday, especially when, for political reasons, we repudiated President Wilson's pledges; and flowered during Anglo-Saxon appeasement times. It was a natural, not unnatural, consequence of the world political and economic situation. The fact that the attack was treacherous, dastardly and contrary to rules of war is meaningless except from an emotional or patriotic standpoint.

The stage was set for that attack years ago. The Japanese cast was trained and rehearsed until they were letter perfect in their parts. Therefore, to understand what is to be, let us briefly summarize what has led up to the present. Remember Germany attacked Russia last June because she was unable to invade Great Britain and win the war then and felt that a Russian victory would, at least, guarantee her a draw or insure her better peace terms when the time to cease firing sounded. Japan attacked us for quite another reason. First, to prolong the war and exhaust Britain and ourselves so she would have undisputed command in the Pacific, and only incidentally to assist in winning a victory for the Axis.

Must Plan to Win

It must always be borne in mind that this is a war, a fight, and the way to win a war is by fighting. While it is always possible for the Allies to win because of a revolt within the ranks of the Axis, because of economic collapse or other non-military causes, those are only possibilities. To fight successfully you must plan to win through force of arms. The United Nations can attain military superiority even though they must extend themselves to the utmost to attain this position. It is a difficult, uphill climb, one that we must take instead of relying upon non-military factors to turn the balance in our favor. Every sign points to such a conclusion, after a long and bitter struggle. While it is probably true the anti-Axis forces could not have won the war without us, it is not certain they would have lost the war had we remained benevolently neutral. It is a certainty, however, that if they could not have won the war without us, peace cannot be stable without our participation. We will be a prime factor in the peace.

Italy presents a splendid example of how a nation can be exhausted through war unless productive areas or facilities are added. First Italy, even then at a low economic ebb, fought Ethiopia and won a commercially unproductive area of mountains and desert country; then, she wasted considerable of her manpower and supplies in the Spanish war and received experience for her pains. As an Axis partner she threw her legions against the Greeks and was beaten to a pulp by the descendants of the Sons of Marathon until Germany came to her aid. She hasn't added a single foot of productive enemy territory to her Empire, but has been obliged to exhaust herself over a period of years. Mussolini, the forerunner of Hitler, is on the wane. As his star descends that of Hitler ascends. The world is too small for two dictators; perhaps too small for even one. Italy had a choice between butter and guns. She chose guns, and today she has neither butter nor guns.

France chose peace instead of war—after Sedan, after the piercing of the Maginot line—and today, she still waits for peace. She was so certain she would be defeated, long before the Nazis fired the first shot at the Maginot line, that victory became impossible. Defeatism in the enemy, attained through a psychology of terror, is the only real workable second arm of the military.

In A Nut Shell

Paradoxically, our own economic foundation for peace will be stronger if the war lasts another 3 to 5 years than if the end comes soon. Civilian production and consumer demand have but recently passed the crest of their biggest boom in history. Civilian inventories, including supplies of all types of goods in consumers' hands, are now very high. Protracted war would deplete civilian supplies, build up huge deferred demands. At the same time reduced consumer spending and increased saving, especially in war bonds, would build up a tremendous pool of private purchasing power. For these reasons, less Government "pump priming" will be required if the road to victory is relatively long than if it is short.

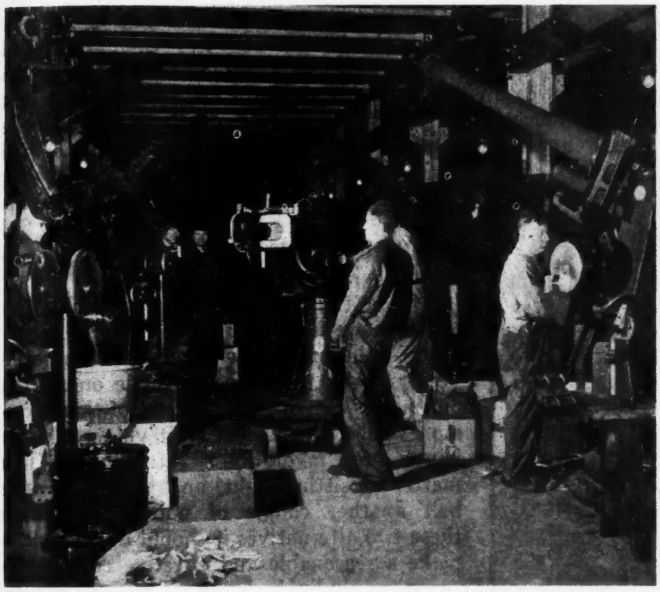
Industries that would be further hurt by long war include utilities, merchandising, tobaccos, packaged foods. The abnormally good war-time earning power of such active industries as machinery and equipments, aircraft, steel, shipbuilding, metals and railroads would merit increased speculative confidence. In the most favored position of all would be the "peace and war" enterprises which will have heavy volume and substantial earning power during the war period, which can re-convert to civilian production with relative ease, and for whose normal products a large backlog of deferred consumer demand will have accumulated. Examples are automobiles and accessories, office equipment, household electrical apparatus including radios, and some building materials.

Blockades and economic pressures may contribute to the ultimate victory; but only force of arms, supplemented by a campaign of terror, can clinch the triumph.

That presents us with another problem in preparing for the peace. When peace is signed one war ends and another starts. The conquered people don't cease to exist just because they are conquered. The defeated nation doesn't just vanish from the earth. Geographic boundaries may change; forms of government may be altered and armies disbanded and disarmed, but the population of the defeated nation remains. An assured and permanent peace can only be attained through the full cooperation of the people, our own people and the population of the defeated lands. And, by the same token, if we are to receive the cooperation of the people of the occupied lands, which we must have before we can hope to negotiate a successful peace, we must give them some definite assurance that, first, we will win the war, and second, their interests will be safely guarded at the peace conference. We must make positive there will be no third world war. If this is truly a war of

survival, then a victory should assure the survival of peace.

So much for the military aspects. Let us view the situation from an economic standpoint, our own economic standpoint. We are fighting a gallant, typically American, uphill war. We will win. While Frenchmen envisaged defeat for France long before the first shot was fired, Americans and Britishers have an entirely different psychology. No American, nor any Britisher, can conceive anything but a victory for his nation. Therefore in preparing for the peace we are preparing for a victorious peace. We are assuming that the peace will be something more than an armistice, a twenty year lull between battles. We are preparing to give our grandchildren something our own children have never had—a world without war. The very lads who are so gallantly



Harris & Ewing

carrying our battles into the enemies' strongholds today were born during the last great armistice and have never breathed anything but war or war threats.

The longer the war lasts, within reasonable limits, say within five years, the costlier the war will become, the greater will be our sacrifices in lives, in money and creature comforts. But, by the same reasoning the stronger will be our preparations for the peace. As was pointed out in my preceding article, it takes a long time of fighting to prepare for an adequate peace. Look about you today. Business as usual is becoming nothing but a memory. While we are fighting valiantly to maintain our standard of living, it is being lowered steadily. There is no danger that it will ever sink to the level of some of our foes, but maintenance of the status quo is impossible.

When approximately two-thirds, and possibly three-fourths, of a nation's industrial productivity is devoted to the interests of war (especially a nation like the United States, the world's largest consumer of durable goods), economic changes are drastic. Not only are inventories gradually exhausted in durables, but soft goods, except for bare necessities, become scarce. A nation of 130,000,000 persons is at war. Not 8,000,000 or 10,000,000 of our population is at war. Our national debt is increasing so rapidly through expenditures for the conduct of the war, it has reached such proportions that "balance the budget" is not only an impossibility, but a cry from a far away age.

The habits of our people are changed. The war passes through various domestic stages. First, there is the psychology of preparing the American people to accept a state of war. The Japanese took care of that when they attacked Pearl Harbor. Next is recruiting a military force. The draft and voluntary enlistments take care of that. Arming and equipping the military is next in line—and industry takes care of that. As industry converts to war needs; as the ranks of skilled, semi-skilled and unskilled labor are drained to meet military and war requirements, shifts in occupation and residence become necessary. Wages increase, costs of living rise, shortages occur, isolationism is destroyed, class distinctions vanish; individual competition is dulled and, if we are to win, the aggregate effort of the nation is pooled.

If every war is followed by an era of peace, every boom is followed by, if not a crash, at least a tapering off process. Whether we like it or not, war is a boom. Anything which disregards normal standards and accelerates production, employment, income and living costs, is a boom, call it what you will. While, in the strictest sense there is no redistribution of wealth, more people have more money than in normal times. Higher wages, especially following on the heels of a depression, leads to increased spending. The cutting off of normal international trade; divorcement from world sources of supply and inability to transport both raw materials and finished products with normal facilities reduces the nation's earned income. While under the speeded up tempo of war our production facilities are expanded, the products of these augmented efforts add nothing to the permanent national wealth. We are creating forces of destruction and not of construction.

Give Up Security

What are we required to "give up" during war? First of all our sense of security. We have to make our old durable goods last, such a refrigerators, radios, furnaces, automobiles, tires, washing machines, typewriters, steel furniture and hundreds of other items. We are unable to purchase the soft goods in the quantities to which we are accustomed. We, because it is a total war, live in danger of physical attack. Taxes mount and mount until it appears that there is no limit to it all. We see our youth go away to war, sailing the seven seas and fighting in lands that, until a short time ago, were mere names of exotic places on the globe. We know many of the flower of our manhood will never return. War claims the lives of those most physically fit, not the lives of the older and the weaker. After every war there are gaps in the ranks of the succeeding generation that are out of proportion. In England after the last war there were communities where (*Please turn to page 99*)

Dividend Casualties

Which Companies? — How Much?

BY J. S. WILLIAMS

THE list of dividend casualties has mounted steadily in recent weeks, and one thing is certain there will be lots of others before mid-summer. At recent annual meetings forthright executives of not a few companies have been at no pains to gloss over the current prospects, warning stockholders that they must be prepared for lower earnings and dividends. Paradoxically, these casualties have been heaviest among old line common stocks, quality issues on which dividends have been inviolate through periods of severe business depression. Stockholders have grown to depend upon them, only to find their income reduced now in an economic environment of unprecedented business activity.

Selected Common Stocks Offering Reasonably Secure Dividends

Issue	1941 Earnings Per Share	1941 Divi-dends	Most Recent Divi-dend	1941 Price Range High	1941 Price Range Low	Recent Price
Acme Steel	$9.65	$5.00	$1.00	48¾	46	46
Amer. Smelt., Ref. & Min.	5.59	3.50	0.50	43	36¼	37
Bendix Aviation	6.30(a)	4.00	1.00	39 ⅞	32⅛	33
Borg Warner	3.20	2.00	0.40	24	19¾	21
Campbell, Wyant & Cannon	2.37	1.60	0.25	15½	11⅞	14
qClark Emuipent	8.67	3.25	0.75	34½	29½	31
Climax Molybdenum	3.55	3.20	0.30	49	32⅝	33
Freeport Sulphur	3.95	2.00	0.50	38¾	29½	30
Fruehauf Trailer	4.61	1.40	0.35	19	15½	16
Loew's, Inc	6.15(b)	3.00	0.50	41¼	37	38
Lone Star Cement	4.33	4.00	0.75	42½	35½	36
National Acme	6.29	2.00	0.50	18	15¾	16
National Cylinder Gas	1.41	0.80	0.20	9⅛	7 ⅞	8
Owens-Illinois Glass	3.40	2.50	0.50	54	43¼	44
Phelps Dodge	2.80	1.50	0.40	32¾	25	25
Skelly Oil	6.02	1.50	1.00(t)	28½	19⅜	20
Sperry Corp	4.60	2.00	1.00(u)	31⅜	22¾	23
Spicer Mfg	9.42(b)	3.25	1.00	37	32	32
Swift & Co	3.01(c)	1.35	0.30(s)	25	21⅛	22
Timken-Detroit Axle	5.01(e)	4.25	1.00	34⅛	28½	29
Woodward Iron	3.01	2.00	0.25	24	19¾	20

(a)—Year ended Sept. 30. (b)—Year ended Aug. 31. (c)—Year ended Nov. 1. (e)—Year ended June 30. (s)—Plus 30-cent special. (t)—Paid Dec. 18, 1941. (u)—Paid Dec. 9, 1941.

Lower dividends have been foreshadowed for several months in the market action of many of the better grade common stocks. The prospect has been repeatedly emphasized in these columns. Nevertheless many investors are bound to be surprised to find some of their latest dividend checks are for less than they had expected. Some of these stockholders realizing that lower dividends at this time are not for the most part indicative of poor business, but greatly increased costs and Federal taxes, will take a more or less philosophical attitude, looking upon the loss as part of their contribution to the war effort. Others, dependent upon their investments, will find themselves in a less fortunate position, confronted with the dilemma of reduced income just at a time when living costs and other expenses are rising.

The solution to the problem of these investors is by no means a simple one. It is not merely one of switching out of those common stocks which seem most vulnerable into issues more favorably situated; nor is it a matter of sitting tight, and pulling in one's belt another couple of notches. Between these two alternatives it should be possible to make a reasonable and effective compromise based on individual circumstances and requirements.

To do this the investor should first decide how much less income his securities could yield this year without seriously embarrassing him financially. The next step is to determine what proportion of his income last year was contributed by the type of common stock most vulnerable to higher taxes. To be on the safe side current income from such issues should be estimated arbitrarily at something between one-third to one-half less. This may seem to be looking at the matter in its most pessimistic aspects. But it is by no means inconceivable that an investor with say $2,500 income derived from common stocks could suffer a 50 per cent cut in his current return—particularly if his funds were concentrated in the shares of the type of company which has scant opportunity of expanding its business sufficiently to absorb at least some portion of the higher corporate taxes scheduled for this year.

Typical of such a group of companies are the telephone, electric power, retail, food and tobacco enterprises, all of which should at least be suspected as far

as the safety of dividends is concerned. These by no means comprise the full list of companies which may be compelled to modify their dividend policy this year, under the weight of taxes. It is not only the type of enterprise identified with consumer goods which will suffer, but there will be dividend casualties among chemical, automobile, and building companies as well. Obviously, not a very encouraging prospect for the investor dependent upon income derived from common stock investments.

But if it is obviously impossible to safeguard income 100 per cent, neither is the situation entirely hopeless.

Several of these discussions recently have dealt with the advantage of switching from the least desirable income stocks to second and medium grade bonds and preferred stocks. There is available a fairly wide choice of such issues on which interest and dividends would be accorded a satisfactory margin of earnings protection under any conditions reasonably conceivable at this time. But neither now, or at any time in the past have I advocated the wholesale replacement of common stocks with this class of securities, or other common stocks favored temporarily by conditions wholly identified with the war effort.

For one thing many of those common stocks with endangered dividends have already declined in value to a point where it would be impractical to replace them. Take the case of Chesapeake & Ohio common stock, for example. Last year dividends totaled $3.50. If this year's earnings does not justify a divident larger than $2.50, the shares at 30 would still yield better than 8 per cent, and better than 6 per cent if the dividend is only $2. It would be possible to replace C. & O. shares with an issue such as Timken-Detroit Axle, selling in about the same price range and which last year paid dividends of $4.25. This is the type of company which has derived considerable business and profit from the war effort and should continue to pursue a liberal dividend policy for the duration. From a strict investment standpoint the shares of Timken-Detroit Axle suffer by comparison with Chesapeake & Ohio, but as a temporary expedient they admittedly afford a means of offsetting the potentially lower dividend on the latter.

Judicious Replacement

The point is, however, that while the foregoing would seem to have much in its favor as a single undertaking involving the two issues in question, it might well lead the investor into more serious difficulties later on by weakening the capital position of his portfolio solely in the interests of current income. In other words the policy of replacing good quality common stocks, even where dividends are vulnerable, if carried to extremes might ultimately defeat its own purpose. It is a policy which should be pursued judicially and within reason.

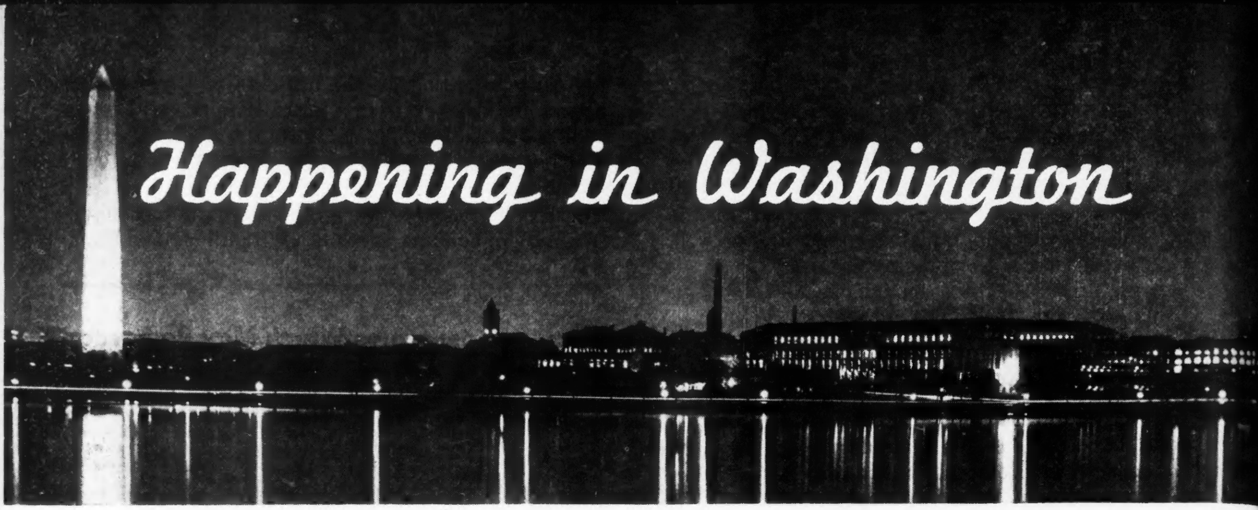
Moreover, it might be well to bear in mind that the war will not last indefinitely and even now it may not be too early to anticipate the ultimate re-conversion of industries and companies to a peace-time basis. A company like Johns-Manville, for instance, deprived of its normal outlets and rapidly approaching an all-out war basis will have much less difficulty in readjusting itself in a post-war economy than the average aircraft manufacturer or shipbuilding concern. With all civilian building activity suspended for the duration of the war, a tremendous potential demand for all manner of building equipment and materials will be built up. It will be recalled that the last real building boom followed closely on the heels of the armistice which ended World War I. Such a prospect, of course, presupposes that the end of the war this time will not bring a serious and protracted general business depression. Other companies which should experience scant difficulty in reverting to a peacetime basis would include certain automobile equipment manufacturers, leading automobile companies such as General Motors and Chrysler, certain types of retailers and service companies, manufacturers of household equipment and furnishings.

All of which brings us back to our original premise—the wisdom of compromise and flexibility. The portfolio with funds spread over medium grade bonds and preferred stocks, quality common stocks and a few war-peace issues, and of course as many War Bonds as feasible should be able to weather the present difficult period without too great a sacrifice on the part of the investor.

Representative Companies Which May Be Forced to Pay Lower Dividends This Year

Issue	1941 Earnings Per Share	1941 Dividends	Most Recent Dividend	1942 Dividends*	Recent Price
Allied Chem. & Dye	$9.67	$8.00	$1.50	$6.00	119
American Can	6.45	4.00	1.00	3.00	58
American Chicle	8.13	6.00	1.00	4.00	68
Borden	1.88	1.40	0.30	1.00	19
Chesapeake & Ohio	5.79	3.50	0.75	2.50	28
Chrysler	9.22	6.00	1.00	4.00	53
Cluett, Peabody	4.14	3.00	0.75	2.50	26
Coca-Cola	6.78	5.00	0.75	4.00	64
Commonwealth Edison	2.10	1.80	0.45	1.20	18
Consolidated Edison	2.00	1.80	0.40	1.50	12
Continental Can	2.62	2.00	0.50	1.50	22
du Pont	7.44	7.00	1.25	4.50	105
Eastman Kodak	8.57	6.00	1.50	5.00	110
Electric Auto Lite	4.90	3.00	0.75	2.50	23
General Foods	2.57	2.00	0.40	1.60	25
General Motors	4.45	3.75	0.50	2.50	33
Industrial Rayon	3.04	2.50	0.50	1.75	21
Johns-Manville	6.66	3.00	0.75	2.50	51
Libbey-Owens-Ford	3.52	3.50	0.25	1.50	21
National Biscuit	1.43	1.60	0.40	1.20	14
Norfolk & Western	18.68	15.00	2.50	12.00	145
Penney, J. C.	6.24	5.00	0.75	4.00	60
Public Service of N. J	2.04	1.95	0.30	1.20	10
Sears, Roebuck	6.35	4.25	0.75	3.00	45
Union Carbide	4.53	3.00	0.75	2.50	59
Westinghouse Elec. & Mfg.	7.21	5.00	1.00	3.50	64
Woolworth, F. W	2.69	2.00	0.40	1.60	23

Happening in Washington



Charles Phelps Cushing Photo

BY E. K. T.

Management and labor alike continue to be pilloried by publicity-seeking, sensation-minded congressional committees. These meddlers are directly to blame for wide public confusion over the 40-hour week and war profits. They bully witnesses, deal in half truths and deliberate distortions, permit no rebuttal. That has long been the record of congressional probers and there's little hope this type of lawmaker will bow to the need for restraint with the country at war. But you can mark down one forecast—such persecution will be squeezed off if Republicans win House control in November. The GOP isn't reform minded.

Sugar shortage lingers on, but the Agriculture Department is pressuring the farmer against raising more wheat—wheat which might serve as a substitute for sugar in alcohol for munitions. Farmers are voting May 2 on wheat quotas and are being warned by Washington that prices will fall if production rises because there's already too much wheat in the world. If two-thirds of the planters vote for quotas, every farmer will be told how much he can raise.

Government agencies become so confident the Supreme Court will uphold the New Deal that they broaden their scope on the basis of lower court opinions. Typical is the Labor Department's Wage and Hour Division. By mandate that outfit is now using a Federal court ruling in New York as a springboard for extending the Fair Labor Standards Act to hundreds of thousands of workers heretofore considered exempt as engaged purely in intrastate activities. The lower court decision is on appeal before the Supreme Court, but the Wage and Hour Division scorns the possibility of reversal there.

Don't expect to make supermen of your workers by dishing out vitamin pills at the time clock. That's a tip from the Food and Drug Administration for industrialists experimenting with mass, indiscriminate administration of vitamins to industrial workers. F D A thinkers are pretty skeptical about the whole vitamin fad.

Commercial airlines have slight chance of persuading the courts to outlaw retroactive rate reductions by the Civil Aeronautics Board. The lines have decided to obtain a Supreme Court ruling, but privately they're pessimistic. Efficiently-operated carriers are looted of millions by this system whereby the C A B imposes retroactive rate cuts and the Post Office Department promptly recaptures the amount of alleged over-payments by withholding pay from the lines for future mail services.

W P B still has its troublemakers who ought to be erased. Certain labor men there whisper to union brethren that conversion has been delayed because W P B hasn't sharp enough teeth to make industry convert, that Congress should be pressured into straitjacketing management. Don Nelson ought to crack down on this kind of stuff. He well knows W P B can make any manufacturer convert or break him through priorities control.

Washington Sees:

The Bernard Baruch economic philosophy has become the dominating influence in Washington's second World War thinking.

As consumer, producer, investor, and worker you'll see—and feel—positive and ofttimes painful evidence of this as time muddles on. If you want a glimpse into the future, find out what Baruch is saying and thinking!

Months back—long before Pearl Harbor—Baruch sought to have the President and the Congress condition the nation's domestic economy for the stress of war to come. The President and the Congress were respectful but unresponsive. Now they're repentant. What's more, they're eager for his guidance.

So now Washington policymakers ask one another the question—and they will ask even more penetratingly in days to come—"What does Baruch think of it?"

Don't be headline hustled into fearing the war news is all gloomy. It isn't. Abroad we're losing military struggles. At home, what's more important, we're finally winning production battles. That's the pattern we've got to be content with for some time to come.

War Production Board is at last beginning to click. From Donald Nelson's unspectacular sweat flows a stream of planes and tanks and guns and ammunition. Nelson was slow in getting started, too cautious for some. But now he's in the groove — and watch his smoke. Six months hence voices which heckled Nelson for converting industry so leisurely will be yelling he went too fast. From now on the people are going to get hurt and are going to squawk. They will squawk in vain.

Materials shortage is the specter haunting Nelson today. That's to be feared more than plant power or man power exhaustion. Daily evidence pyramids that conserving materials is of even greater moment than the need for utilizing all production facilities. By autumn it is likely the procurement of materials will be a more difficult task than marshalling men and machines. That's why Nelson is being tough—and is going to be tougher — about slashing civilian consumption. Losing your trouser cuffs was just a mild hint of what's to come.

Labor from Latin America may be imported into this country before snow flies again. The possibility, in fact, is very real. If the unions acquiesce it will be discussed in a Havana conference within a month or two. Roosevelt likes the idea but will back away from it if union heads show any disposition to balk.

CIO Sidney Hillman, who's job as head of the WPB Labor Division has been abolished, has a grouch on and won't allow himself to be kicked upstairs by the President. He has been offered appointment as White House labor advisor, but associates say he won't accept. Hillman was largely responsible for persuading Nelson to force creation of joint management-labor committees within war plants. You won't hear more from Hillman for a long time—he's on indefinite leave.

Compulsory savings won't be written into this year's tax bill— will be delayed until after November elections — may go into the 1943 revenue measure. War bond sales fell from a billion in February to a half billion in March. Congressional tax experts estimate they must total 24 billion annually to serve as an effective inflation brake. But the Administration is unwilling to impose enforced savings in an election year, prefers to ring door bells in an effort to boost bond buying. After there's a very good chance you may be forced to accept part of your income in bonds.

Inflation spiral has attained a dangerous momentum, can be retarded only by fortright flattening of price and wage fountains. In past twelve months, living cost has jumped 12 per cent. In the same period, average weekly earnings of workers in manufacturing industries rose 24 per cent. That's why price freezing must be coupled with ceilings on wages except for lower bracket labor.

Don't be surprised if the Federal Reserve Board tightens its restrictions on installment buying. It wouldn't be too astounding if the board outlawed installment sales entirely.

Congress will reject Secretary Morgenthau's proposal to tax outstanding state and municipal securities. Opposition sprouts daily. Also there's a good chance Morgenthau's request for repeal of depletion allowance on oil wells may be ditched.

Leon Henderson had better cock a weather eye at Congress. He's heading into some stormy atmosphere. Six months back Congressmen were inclined to regard Leon as a bad boy. He talked them out of that mood but now he's talking them right back in with threats and bluster calculated to blackout blunders.

Latest boomerang tossed by Henderson won't bounce without hurting just because it deals with rubber. This week he sent out field agents for a spot check of the New England scrap situation and warned that if returns were bad he might seize car owners' spare tires after June 1. By intent or ignorance, Leon selected for his yardstick six small states with a dozen rubber reclaiming plants, six small states which have already been finely combed for scrap, instead of great western and mid-western states without reclaiming plants and with uncounted tons of scrap now lying idle. You can be sure Congress will pry into this bit of pettifoggery.

OPA is quietly talking about censoring the daily and trade press to prevent publication of forecasts that specific items may be rationed. By its own premature announcements OPA has provoked frenzied hoarding. Now the brain bank there feels it might be wise to keep the public from learning anything about pending ration controls until new orders have been actually placed in operation.

Don't be fooled into believing there's going to be a moratorium in politics. There isn't, and President Roosevelt's own honky-tonk man, Charlie Michelson, is already punching the calliope for the November parade. Because Charlie's press wisdom helped land Roosevent in Washington he draws a pleasant salary as Democratic National Committee publicity mogul, sits in on White House press conferences. And now while his boss talks about no politics in war, Michelson has resumed broadsiding to thousands of country editors his weekly "Dispelling the Fog" letter, a vituperative folder created during early New Deal days to guillotine Roosevelt foes.

State lines would be further blotted out by the the Treasury's formula for revising the Federal inheritance tax upward. Upping the Federal take would sharply shrink revenue from death taxes in 26 states where the Federal assessment is deducted from estates before the state levy is applied. This has the earmarks of one more wedge into state taxing power — just as the auto use tax — one more stride toward centralizing money control in Washington.

Time pieces won't be moved forward another hour to save more daylight. Washington is opposed to any further sun chasing and individual states won't buck the trend.

Fuel oil transportation bottleneck is tighter than the general public knows, is going to be tighter. More consumer sacrifices are in order. You can look for (1) persuasive pressure to have plan operators and home owners convert to coal, (2) diligent efforts to collect huge backlog in bulk storage this summer, (3) consumer rationing of gasoline, and (4) consumer rationing of fuel oil next winter.

Don't worry about being drafted if you're forty or older — unless you qualify by profession as a specialist in which there's a shortage. The Army doesn't want men over 40, is advising Congressmen their constituents in that category won't be out into uniform. Selective Service insists the armed forces must take registrants of all ages as their numbers come up, but war leaders are apt to win their fight, are likely to take younger men first, thrust older fellows into the background.

American Telephone & Telegraph

OUTLOOK FOR EARNINGS AND DIVIDEND

BY H. F. TRAVIS

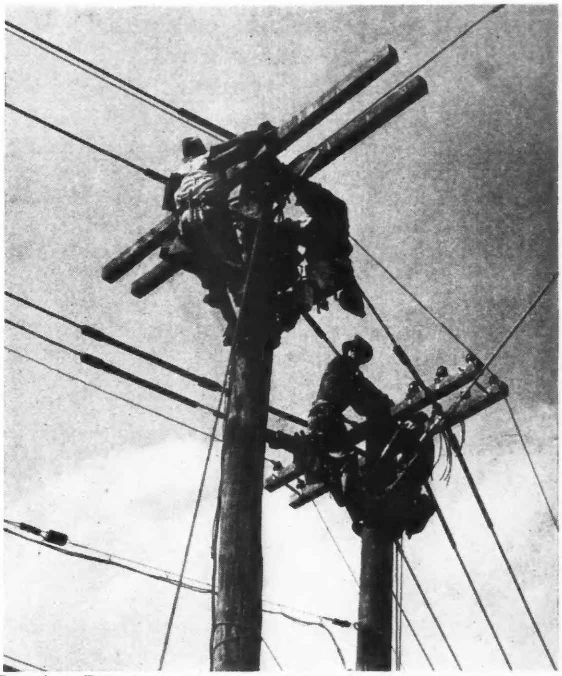
PRESIDENT Walter S. Gifford of American Telephone & Telegraph has recently given support to the investment analysts, who for some time have been contending that the severe decline in the company's stock could be attributed to a fear of a reduction in the $9 dividend rate. Addressing the annual meeting, he said that too many uncertainties lie ahead to permit an advance statement of what dividend policy might be if earnings do not cover the full rate. No announcement of a cut, of course has been made as yet. The possibility of such action, however, focusses attention on the necessity for an appraisal of Telephone's earnings prospects in a war economy and an estimate of how much of a reduction might be required.

Mr. Gifford's statement is authority for the fact that any cut decided on will be forced by higher taxes. With its facilities strained to capacity by the war effort, the corporation has a much different problem than during the depression. Then much of the plant was idle and a policy of drawing on surplus for unearned dividends seemed justified, while now the thin margin of coverage of the $9 rate indicated by parent company earnings of $10.01 in 1941 gives warning that an entirely different financial policy might be necessary if increased taxes cause a serious decline in net.

Mr. Gifford is also authority for the statement that Telephone's earnings would be reduced by approximately $4 a share by the tax proposals now under consideration. This checks with independent estimates, which indicate that application of the 55 per cent normal and surtax and 75 per cent excess profits tax rates suggested by the Treasury would have caused consolidated net income to decline to around $5.90 a share in 1941.

Earnings in 1942 will probably vary somewhat from this level, first because of impairment of profit margins by rising costs and also because of uncertainity over taxes and the possibility of a rise in service rates, but unless the tax proposals are modified, the variation is likely to be slight.

In spite of continued substantial station gains, the company's serious problem is adjusting itself to the tremendous demands of the war effort is having its effect. Operating economies apparently have not offset the $22,000,000 reduction in toll rates last year, the 19 per cent rise in payroll and the higher maintenance costs enforced by the use of older and less efficient equipment. The company has also been subjected to



Talco from Triangle

exceptionally large expenditures for new capacity to meet the expanded requirements of the armed forces. The effects of this are evident in the latest earnings. While parent company net income for the first quarter of 1942 dropped to $2.52 a share from $2.54 in 1941, however, the showing probably has little significance as a preview of full year results, particularly since, once higher taxes are in force, they will tend to cushion a serious decline in operating income, as beyond a certain point the government rather than the company will absorb the loss.

Conversely, benefits derived from a rise in toll rates would be slight. Mr. Gifford hinted that the company might ask for higher rates if such a course were made necessary by a continued rise in costs, but any increase which might be obtained would not mean much unless earnings dropped to a point where Telephone was no longer called upon to pay excess profits taxes. If the company remained in the top tax bracket, it would be obliged to pay the Government 88¾ cents of every dollar increase in operating income derived from higher rates, if the Treasury's tax proposals become effective.

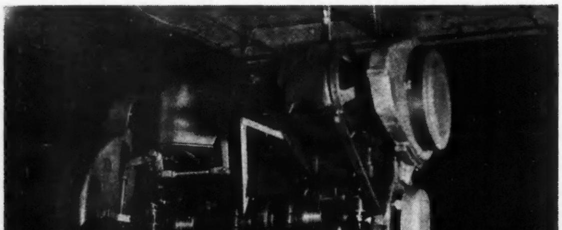
The best chance that American Telephone & Telegraph has of avoiding a sharp decline in net income lies in the possibility that the tax rates finally decided on by Congress will be lower *(Please turn to page 102)*

Measuring Profits for Metals Under Today's Conditions

BY J. C. CLIFFORD

THE vital position of the non-ferrous metal industry as a part of the war effort has been emphasized by the steps taken by the Government within the last few months to insure satisfactory profit margins for producers of essential minerals. Demand for such strategic materials as copper, lead and zinc will break all records this year, and increases of as much as 30 per cent in copper output and 20 per cent in lead production are estimated as necessary to meet the requirements of the armed forces. Present indications are that the armament demand will be met by a herculean effort, in which the industry and Government both play an important part, but that, despite all-time production records, civilian use will have to be cut to the barest possible minimum.

The Government's share in the metal program is to provide the background for profitable operations through price increases and special encouragement to high cost producers. This has been accomplished partially by raising price ceilings on lead, zinc and imported copper by 0.65 cents, 1 cent and 1¾ cents a pound respectively. Other plans include the arranging of special price agreements with a number of marginal producers, the allocation of premium prices for output in excess of 1941 to certain high cost mines or groups of mines and the completion of financial arrangements for the addition of needed smelting and refining capacity. In all cases the position of the individual company has been taken into consideration. Premium prices do not, as is sometimes inferred, apply indiscriminately.



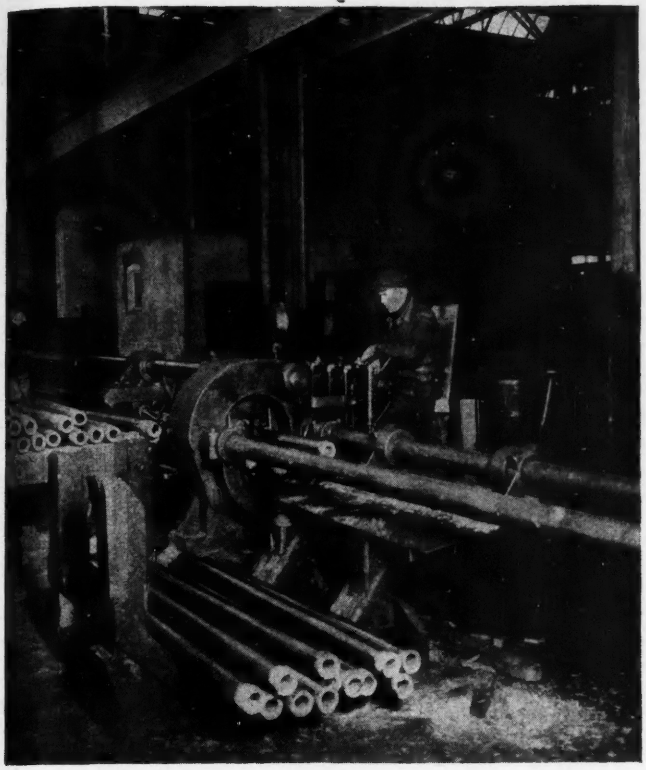
American Can Co. Photo

A shortage of tin doesn't necessarily mean a shortage of cans or containers.

The industry's part is simply to produce as much as possible, by any means it can. Abandoned shafts are to be reopened, tailings worked, low grade ore bodies placed in production, longer work weeks instituted and the completion of new capacity speeded as much as can be done. Present indications are that overall output will increase considerably, that dollar sales for some producers will be sharply higher and that profit margins will be well maintained. By and large, 1942 should be the best volume year in the history of the domestic mining industry, although prospects vary greatly for different concerns.

For the most part, the best gains scored this year will probably be reported by those companies which obtain the benefit of an increase in production coupled with higher price ceilings. This is a point in favor of the lead and zinc mines as compared with the copper producers, since they will be able to sell at a higher average price, while the copper companies must be content with the 12 cents in effect since 1940. A few copper mining concerns can offset the price disadvantage by increasing output by significanct amounts. A few others will receive the benefits of specially negotiated prices. The rest, however, on an operating basis, are not likely to show results that vary greatly from 1941. The effects of premium prices on most leading metal producers is expected to be negligible. Many mining companies have a small amount of low grade ore which can be worked at a premium price, but for most, the possible gains from this source will be insignificant when translated into per share results. Only three or four, including Park Utah, Calumet & Hecla and Silver King Coalition, will find the premiums of material aid.

Earnings prospects are somewhat more difficult to guage than the operating outlook. In spite of higher wage rates, seven day weeks, overtime pay and rising costs of materials, the latest income statements indicate that most of the larger sales realization arising from



Chase Copper and Brass Co. Photo

increased price ceilings can be carried through to net before taxes. This applies principally to the lead and zinc mines. Likewise, operating economies and the elimination of selling costs are likely to offset the effects of higher wage rates for those companies, whether producers of copper, lead or zinc, which are increasing output. The well maintained profit margins of these latter should provide the background for a rise in operating net which corresponds more or less to that in output.

When it comes to translating the operating figure into net income, however, the task is more difficult. Appraisal of the effects of taxes in the extractive industries is never a simple matter. Most companies report before depletion and the allowance for that purpose serves to swell apparent earnings. This year the task is complicated by the possibility that the percentage method of depletion permitted by the present Revenue Act will be eliminated. A smaller depletion allowance would have the effect of increasing taxable income and reducing cash net. This possibility, when added to existing difficulties, makes earnings estimates impracticable. Since depletion can not be eliminated altogether, however, the non-ferrous mining industry will probably stay in a relatively favorable position with respect to profits.

Although earnings estimates are not practicable, a reasonably good idea of the relative earnings prospects of various companies can be obtained by appraising the effects of the anticipated rise in dollar sales due to higher prices and to increased output.

As already stated, the companies in the most favored position are probably those which benefit from a price increase and are also planning an expansion of metal output. This, in principle, favors the lead and zinc mines over the copper companies. Curiously enough, however, several zinc and lead mining concerns, whose output will probably not rise materially this year, may be among those reporting the largest per share rise in operating income because of the leverage of larger dollar sales per share provided by a relatively small capitalization.

As for the copper companies, a few, which are planning to expand production facilities, are relatively well situated, but by and large the industry is not in position to do as well as zinc and lead. Probably most copper producers have limited quantities of low grade ores from which additional metal can be obtained, but the amount is usually so small as to promise little in the way of earnings.

On the basis of available data, the two zinc and lead producers having stocks listed on the major exchanges, which will show the greatest gain in dollar sales are American Zinc, Lead and Smelting and St. Joseph Lead.

American Zinc has announced that it will step up zinc production this year by about 24,000 tons. This would mean that output in 1942 would amount to some 102,000 tons as against 77,972 tons in 1941. Dollar value of metal produced, based on estimated output for this year and the current ceiling of 8¼ cents a pound for zinc rise roughly in proportion. Actual sales may be stepped up even further, because of the company's substantial business in customs smelting.

St. Joseph Lead, for its part, will step up production of lead this year by opening up low cost mines and operating on a longer work week. Metal will be sold at a price about 15 per cent above last year's average and output will approximate 218,000 tons of lead as against 149,000 tons in 1941.

Unlimited Production Basis

Other mines which will probably be able to aid the Government's program are Park Utah and Howe Sound. The former will open up some of its abandoned properties and, while the quantity of metal which can be recovered is uncertain, it should be entitled to a premium price. As the result of the United States agreement to purchase Mexican lead at 3¾ cents a pound, exclusive of duty, Howe Sound should be able to increase its imports from Mexico, Anaconda, although primarily a copper producer, has announced that it will increase the zinc output of its Montana properties by 25 per cent and will add 45,000 tons to its zinc refining capacity by next fall.

Most other mines may be able to step up production slightly, but must depend primarily for their earnings gains on higher price ceilings. New Jersey Zinc, Eagle-Picher Lead and Federal Mining & Smelting are in this category. Considerable leverage is provided for Federal Mining by the small capitalization consisting

of only 246,640 shares of common stock. Eagle-Picher has 894,076 shares of stock outstanding, but in its case there are also $6,194,351 of bank debt and purchase money obligations, the retirement of which should be aided by larger revenues. Eagle-Picher, as well as New Jersey Zinc and Bunker Hill & Sullivan may be able to increase output moderately.

Turning to the copper companies, only a few can point to prospects comparable with those of the zinc and lead producers. Increased ceiling prices on South American imports account for three of these, but the principal beneficiaries are the few mines which are capable of expanding output materially. Certain others, like Copper Range, will obtain a specially negotiated price for some of their properties, the actual benefits of which, however, are doubtful. A few, including Calumet & Hecla, may be able to produce a reasonable quantity of premium metal.

The four copper producers with stock listed on the New York Stock Exchange or New York Curb, that have announced important expansion plans, are Anaconda, its 53 per cent owned affiliate, Inspiration, Phelps Dodge and Miami. Other companies, of course, will increase output, a spectacular instance being Bagdad Copper, which is erecting a $2,500,000 smelter with Government funds and, on its completion this fall, will be able to produce some 12,000 tons of copper annually, as compared with an average of less than 1,000 tons in recent years.

Of the four large producers, the Phelps Dodge plans are, in one sense, the most interesting, since they fit largely into the company's long range program. The Morenci open pit mine, on which work has been in progress for several years, will be operating at rated capacity of 75,000 tons annually in May. Another 12,000 tons of copper can be obtained by opening abandoned sections and placing operations on a seven-day basis, while additional production of around 60,000 tons will be possible on completion next spring of the $28,000,000 additions financed by Defense Plant Corp., for which arrangements were completed in October, 1941.

Inspiration, at the request of the Government, is installing new facilities which will permit an increase in production of about 12,000 tons over the 45,600 tons produced last year. Even if 1942 tax rates permit an increase in earnings, it will not mean much to stockholders in the way of larger dividends, since first call will be given to retirement of the debenture 4s of which there were $4,260,000 outstanding on December 31. The company's financial position should be strengthened, however, and the adoption of the last-in, first-out inventory method should be of assistance towards this end.

Miami's plans will not mean much to stockholders in 1942, but the new Defense Plant of the Castle Dome subsidiary should be in operation by the spring of next year and should permit a step up in production of approximately 23,000 tons of copper annually.

Anaconda's Outlook

Anaconda, on a volume basis, is likely to show the largest increase in copper output in the industry this year, although Phelps Dodge will report a larger gain in 1943. Monthly production should average some 9,000 tons over 1941. In addition, the company is one of those which will receive the 1¾-cent price increase on South American copper, the other two being Cerro de Pasco and Kennecott. Anaconda's increase in revenues from this source is more substantial than Kennecott's, since it imports a greater amount of metal than the latter. As Kennecott has been operating at capacity since 1940, it also falls behind its chief rival from the standpoint of being able to benefit from increased production. All the importers must accept the risk of a shipping shortage that will limit deliveries, but the demand for copper is so urgent that nothing is likely to be allowed to interfere. Except for this possibility, Anaconda, at least, is one of the best situated companies in the industry.

The non-ferrous metal picture would not be complete without a mention of American Smelting & Refining, which would see its custom smelting business rise sharply under the stimulus of the Government's program. Also mention should be made of the important smelting and fabricating activities of such leading companies as Anaconda, Phelps Dodge, Kennecott, Eagle-Picher Lead and American Zinc, Lead & Smelting. Fabricating units are practically certain of capacity operations, even though their contribution to earnings is limited by higher taxes.

Altogether, the non-ferrous metal industry appears to have considerable promise. Even with a decrease in depletion allowances and a rise in taxes, it should have better than average success in carrying operating gains through to net income.

Admittedly, the outlook for various companies differs materially, but the factors making for a variation are reasonably well (*Please turn to page* 103)

Alcoa Photo

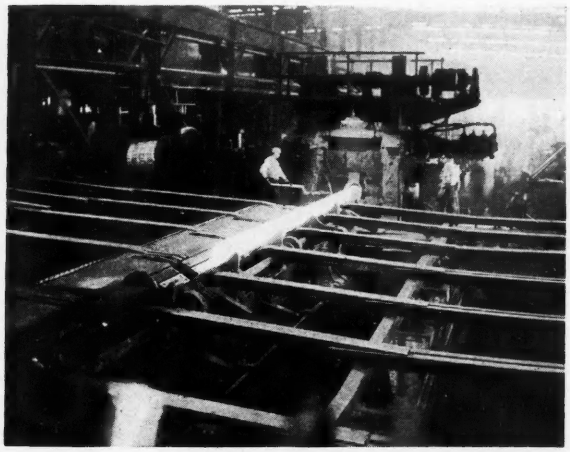
Bauxite mining.

Another Look At Your Company

Appraising the Changing Fortunes of War of Youngstown Sheet & Tube, Cluett, Peabody, Warren Pipe & Foundry, U. S. Industrial Alcohol, Western Union, and Various Others.

Youngstown Sheet & Tube

Last year Youngstown Sheet and Tube, the sixth largest factor in the steel industry, reported earnings of $9.13 a share for the common stock. But in the annual report, the management was at pains to point out that stockholders should be prepared for substantially lower earnings henceforth. Reasons advanced for the less favorable outlook this year were the obvious ones with which all companies will be confronted: increased material costs, higher transportation costs, important changes in consumer demands, exhaustion of some inventories



carried into and shipped in 1941, and the certainty of greatly increased Federal taxes. There are, however, several offsetting factors which suggest that actually earnings this year, while lower, may be better than the annual report hints at. For one thing the company will have the benefit of about 200,000 tons additional capacity. The drop in civilian consumption, notably that suffered as a result of the cessation of automobile output, promises to be more than offset by greatly increased output of war materials. Had the proposed new taxes been in effect last year, Youngstown would have probably shown a decline of about 33 per cent in per share earnings, before a contingency reserve of $1.20 a share. Weighing these several conditions, it would appear that the company this year could show earnings of at least $4.50 a share. This would provide a 50 per cent margin of coverage for the $3 dividend paid in 1941. Dividend prospects are bolstered further by the company's strong current position. Total current assets at the close of last year were in excess of $111 million, with cash alone of over $41.5 million, while current liabilities were only some $23 million. At recent levels around 32, the common shares offer a potentially generous yield, even if dividends this year total only $2.50 or $2.

Western Union

Early in April, legislation was introduced in the Senate which would permit a merger of the facilities of Western Union and Postal Telegraph. Such a merger has long been thought to be desirable both in the public interest and that of the two companies involved. It would undoubtedly permit important operating economies to be placed into effect and the elimination of overlapping services and facilities. Under the pressure of more urgent business, however, some time may yet elapse before Congress takes any action on the measure. And even then acceptance by the two companies would depend upon the provisions and regulatory conditions involved. Right now Western Union is doing quite well earningswise. Gross revenues in the first two months of the current year were nearly 14 per cent ahead of last year and in the same period earnings totaled $650,875, equal to 62 cents a share for the common stock, compared with $454,834, or 43 cents a share in the same months of 1941. It was officially stated that a large part of increased gross was being absorbed by higher taxes and operating costs, and while the company's operations and earnings have received considerable impetus from the war effort, it is possible that from now on the gain in revenues will be less conspicuous, reflecting in some measure the conversion of many plants to an all-out war basis at the expense of peace-time activities. In 1941, with earnings equal to $7.05 a share on the 1,045,277 shares of capital stock, the company enjoyed one of its most prosperous periods in recent years. Dividends amounting to $2 a share were paid and the most recent payment was at the rate of 50 cents. Finances, at last reports were comfortable and should permit the company to maintain current dividends on a par with last year—assuming, of course, that taxes do not take too heavy a toll. Pricewise, Western Union shares have acted better than the market as a whole, recent quotations around 26 comparing with 1942 high of 27¾ and a low of 23⅛.

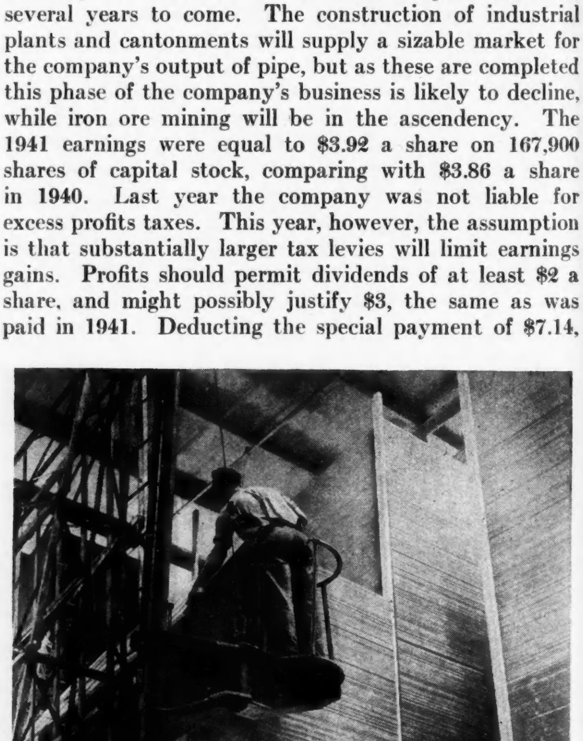
Another Look At Your Company

Cluett, Peabody & Co.

As the current outlook for Cluett, Peabody shapes up at this time, it would appear that it is not so much demand for the company's products, as ability to obtain adequate supplies of grey cotton goods for processing. This may affect the company not only directly, but may also have an adverse affect upon income derived from licensees of the company's Sanforizing process. Due to a shortage of loom facilities it will be necessary, according to a recent ruling to W P B, to convert from 20 per cent to 100 per cent of looms from present fabrics to production of war requirements. It was estimated that, despite the fact that public purchasing power this year will be the largest in history, the available volume of cotton clothing will be no more than in 1939—and may be less. The affects insofar as Cluett, Peabody is concerned may be mitigated to some extent by large inventories, which at the end of last year totaled more than $10,000,000 or about $4,000,000 greater than at the end of 1940. It must be assumed, however, that difficulties in obtaining adequate replacements will mount rather than diminish with progress of the war effort. Last year, out of total net income reported by the company amounting to $3,044,093, the Sanforizing division contributed $1,243,012, or nearly half. Applied to the common stock the latter figure was equal to about $1.85 a share, out of total earnings equal to $4.14 a share. The company's total net sales last year set a new high record, although higher costs and taxes held earnings moderately under the previous peak made in 1939 when net was equal to $4.16 a share. Dividends last year amounted to $3 a share and have been continued at that rate thus far this year. The $3 rate, however, must be regarded as uncertain not only in the face of the factors enumerated, but also when allowance is made for higher tax levies and increased operating costs this year. Company's financial position at the end of 1941 was comfortable. It should be noted, however, that cash totaled $1,579,149 and U. S. Treasury tax notes of $1 million were held. Total taxes paid by the company in 1941 amounted to nearly $1,500,000. The management, therefore, may deem it advisable to act conservatively in the matter of dividends in order to build up cash.

Warren Foundry & Pipe

On June 1, stockholders of Warren Foundry & Pipe, as of record May 15, will receive a surprise distribution amounting to $7.14 a share, representing the proceeds to the company from the sale of certain assets to the Allan-Wood Steel Co. Previously it had been thought likely that the company would use this money to further develop its iron ore properties, but apparently the management was of the opinion that its present cash position was adequate for its needs. Warren Foundry is one of the country's leading manufacturers of cast iron pipe, with capacity to produce about 10 per cent of domestic requirements. Plants are strategically located in relation to the important Atlantic seaboard and New England markets, permitting important cost and competitive advantages. This year, and for an indefinite period of time, the manufacture of pipe will have a secondary place in the company's activities, with the mining of iron ore assuming major importance. Plans for enlarging the company's iron output several times over are expected to be completed in 1943. One of the characteristics of the steel industry is that current production is always largely dependent upon the reclamation of past production. For many years the junking of old automobiles and other steel products provided the essential steel scrap. The present pinch in scrap supplies is partly due to heavy previous exports to Japan, but the major long-term factor is that we are no longer making steel civilian goods subject to scraping in this country. Present steel production is going into armaments, the bulk of which will either go abroad—never to return—or which will be held permanently in reserve in this country after the war. This means that the steel industry for years to come must get along on less scrap, and use more pig iron. According to reports, Warren Foundry has contracted for its entire output of iron for several years to come. The construction of industrial plants and cantonments will supply a sizable market for the company's output of pipe, but as these are completed this phase of the company's business is likely to decline, while iron ore mining will be in the ascendency. The 1941 earnings were equal to $3.92 a share on 167,900 shares of capital stock, comparing with $3.86 a share in 1940. Last year the company was not liable for excess profits taxes. This year, however, the assumption is that substantially larger tax levies will limit earnings gains. Profits should permit dividends of at least $2 a share, and might possibly justify $3, the same as was paid in 1941. Deducting the special payment of $7.14,



Another Look At Your Company

the shares at current prices—35—would yield about 6.5 per cent on a $2 dividend and better than 10 per cent on the $3 rate.

Johns-Manville

All new civilian construction is out for the duration of the war. Civilian expenditures for home repairs and modernization cannot exceed $500. But this will scarcely be noticed in the production activity of Johns-Manville, a leading manufacturer of building materials and supplies. It has been officially estimated that 70 per cent of the company's present production is essential to the prosecution of the war. At least 50 per cent of production is being scheduled on A-10 priorities or better. Items beng produced by the company for defense are reported to number in excess of 1,000. But sustained plant activity does not mean a corresponding lift to profits and earnings. In the first quarter of this year sales were up $5 million from the level of a year ago, but costs were up $3 million and taxes were up $1.7 million. Net totaled $696,335, or 77 cents a share, against $1,561,583, or $1.73 a share last year in the first three months. The company has made a speedy conversion to a war basis, but looking ahead Johns-Manville would seem to fall into that group of "war-or-peace" companies which should be in a position to make an equally effective conversion to its peace-time basis.

Collins & Aikman

Among those companies largely dependent upon the automobile industry, Collins & Aikman has not been so fortunate in replacing automotive demand with war orders as has some of the metal equipment manufacturers. The termination of automobile production, coupled with expenses incidental to changeover of facilities to basis capable of turning out war materials, was responsible for the decline in per share earnings reported for year ended Feb. 28, last. In that period net was equal to only $1.07 a share, compared with $5.15 a share in the previous fiscal period. The company is a leading manufacturer of pile fabrics used principally for upholstering work in passenger automobiles. Just how the company is fitting into the war picture is not revealed, but the management reports that the work now on hand will utilize 80 per cent of production facilities, and the job of conversion to war production is being completed rapidly.

U. S. Industrial Alcohol

Indicative of the extent to which activities of U. S. Industrial Alcohol have benefited from the war is the fact that last year stockholders received the first dividend since 1936; earlier this year the shares sold at the highest levels since 1937; earnings for the fiscal year just ended will be the best since 1934. For an indefinite period the company will be able to sell promptly every gallon of alcohol which it can turn out, for alcohol is a vital ingredient in the manufacture of powder. The company's past record has been an erratic one, to say the least, reflecting recurring over-production, price cutting and excessive competition, but all of this has been eliminated for the duration. Alcohol prices are fixed, but are adequate to give the company a fair margin of profit. Plants of U. S. Industrial Alcohol have a rated production capacity of upwards of 35 million gallons of ethyl alcohol, or about 15 per cent of the present rate of total output. Production from all domestic sources is running at the rate of more than 50 per cent ahead of last year. The company's most recent fiscal year ended on March 31, last, and the official report has not yet been issued. It has been estimated, however, that profits for this period will show about $5 a share available for the 376,836 shares of stock which comprise the entire capitalization. Last year dividends paid totaled $1.25 and thus far in the current year payments to stockholders have aggregated $1.50, including a year-end (fiscal) payment of 75 cents. Like most corporations, recent profits, in the face of substantially increased taxes, may constitute the peak of war-time earnings. Nevertheless, dividends will probably continue fairly liberal in relation to such earnings. Incidentally, the company's investment in the shares of National Distillers and Air Reduction had a value, based on recent quotations, equal to between $5 and $6 a share.

Bigelow-Sanford

The war has hit the makers of woolen rugs and carpets with both barrels. First it appears that supplies of wool will be largely diverted to the manufacture of uniforms and blankets. Second, supplies of burlap and jute will be seriously restricted by war in the Far East, and it is expected that no further allotments will be made to carpet makers after April. It may be of scant advantage to a company with fairly large inventories of these essential materials. W P B has suggested that carpet manufacturers ascertain what stocks of wool can be diverted to more essential purposes. Early in April Bigelow-Sanford announced the closing of a large weaving mill in Amsterdam, N. Y. To meet the situation the company is engaged in converting looms to the weaving of blankets and several of the company's machine shops are manufacturing machines and parts. Further conversion is planned, while some of the company's normal business can be retained through the employment of substitutes. The full effect upon current earnings cannot be gauged at this time, but it is a pretty safe guess that they will be lower—possibly substantially so.

Office Equipments Convert to War

Huge Volume Gain Will Be a Partial Offset to Higher Taxes

BY A. BANCROFT WELLS

THE business of making business machines is as American as baked beans and corn on the cob. No nation in the world makes and uses so many diversified types of office equipment in normal times as we do.

Royal Typewriter Photo

Assembling typewriters requires skill.

But that is the peace time role of the business machine industry. What about its industrial position in time of war? The industry is "doubling in brass," still making a limited quantity of business machines, almost exclusively for government use, and manufacturing a myriad of military equipment ranging from field kitchens to small field guns. Because the business of war is a big business in itself it must function like any other big business. That means with the assistance of adequate supplies of business machines, ranging from portable typewriters and adding machines to elaborate photographic and control record machines.

If the clatter of all the government used typewriters in Washington alone could be magnified and broadcast, the populations of Tokio, Rome and Berlin would imagine another aerial blitzkrieg was on the way. Clerical assistance, of which apparently there is still a shortage in government offices, is dependent upon typewriters and other business machines to function efficiently. There is such a definite shortage of typewriters, in certain government offices in Washington, that efficiency experts are preparing a stagger system whereby typists can use them in relays. Every branch of the armed forces requires and is equipped with business machines of one type or another. And the people who make these machines are hard pressed to meet the demands, even though Mr. Henderson has frozen the sale of typewriters and some other office equipment to the general public. They are hard pressed because of high priority rights on steel and other raw materials alloted for their use and because, in some instances, as much as 75 per cent of plant facilities have been converted to the manufacture of out and out war supplies.

To glean some idea of the size of the business behind the manufacture of business machines let us analyze the financial positions of four of the leading concerns in the field, namely, Remington Rand, Inc., International Business Machines Corporation, Underwood Elliott Fisher Company and Royal Typewriter Company, Inc. Using their own annual reports to stockholders as a basis of analysis we discover that three of the four companies, Underwood, International and Remington-Rand, show a gross income for 1941 of $148,585,622. That most certainly puts it in the realm of big business.

According to the Thirtieth Annual Report of the International Business Machines Corporation for the year ended December 31, 1941, net profits, including foreign subsidiaries and branches, but before deducting estimated United States and Canadian income and excess profits taxes and special reserves, was $19,544,633, compared with $13,097,013, for 1940, an increase of $6,447,620. After all tax and special reserve deductions were made the net profit for 1941 was $9,844,633, compared with $9,431,013 for 1940, an increase of $413,620. The net profit for 1941 after taxes equals $10.44 per share on the 943,028 shares outstanding December 31, 1941, which shares include 44,850 shares issued as a stock dividend on January 30, 1941.

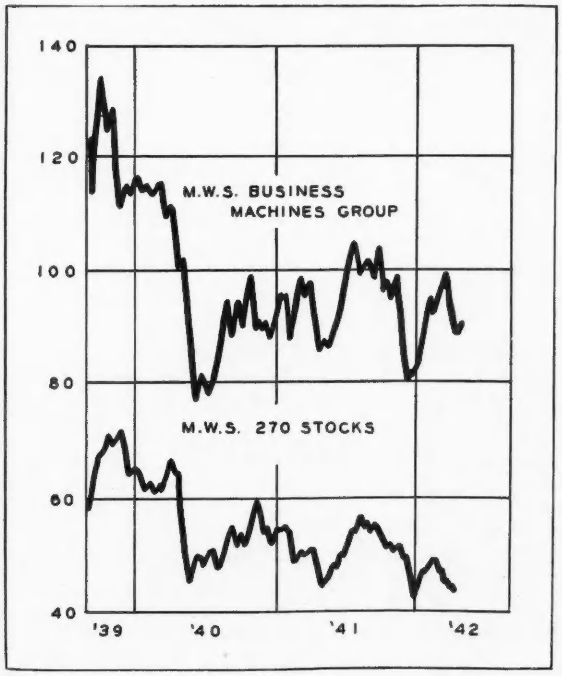
Underwood Elliott Fisher showed 1941 consolidated net profit of $3,740,088, compared with $2,226,255 for 1940, after provision for depreciation, all taxes, reserves and all other charges. This is equivalent to $5.09 per share on 734,300 shares of outstanding common stock, compared with $3.03 per share for 1940. Federal taxes provided out of the year's income, including Social Security Taxes, amounted to $3,695,595, compared with $719,442 for 1940. In December, 1941, the 124th quar-

terly dividend was paid, the total dividends for the year being $3.50 per share.

Increases in income and net profit were shown in the latest report of Remington Rand, covering the fiscal year ended March 31, 1941.—Total volume of business for the period exceeded the previous year by $5,947,057. The consolidated net profits were $4,263,249 after providing $1,375,000 for estimated United States and foreign income taxes, as compared with net profits for the preceding year of $2,305,177. After deducting dividends paid on the preferred stock, the net profit for the year amounted to $2.17 per share on the common stock outstanding, compared with 94 cents per common share in the previous year. During the year regular cash dividends, amounting in total to $831,729 were paid on the outstanding $4.50 cumulative preferred stock. In addition to cash dividends totaling 80 cents per share, amounting to $1,265,097, paid during the year on the common stock, a stock dividend (158,145 shares) was declared in February, 1941, to stockholders of record March 14, 1941, with the result that common stockholders received on May 1, 1941, one share of common stock for each ten shares previously owned. Cash dividends for the current quarter were declared on May 27, 1941, consisting of $1.12½ a share on the $4.50 preferred stock and 20 cents a share on the common stock, payable July 1, 1941, to stockholders of record June 10, 1941.

The Royal Typewriter Company, Inc., reporting its thirty-four years of progress, shows the company earned, after all tax deductions, a net of $2,732,852. The company transferred $25,000 to its reserve for contingencies and paid $7 per share dividends on preferred stock and $5.50 per share on common stock. The report was for the fiscal year ending July 31, 1941.

All of these reports, the latest available on an annual basis, are indicative of business conditions in that industry before this country became an active belligerent.



Investment Pros and Cons of the Office Equipments

Pro:

War orders plus "essential" output of part of regular lines will provide all the volume that can be handled for duration of hostilities.

Conversion of facilities to war work involves no major capital investment or capital financing.

If war is prolonged, stoppage of non-essential output plus obsolescence of equipment in use will build up large deferred civilian demand to be filled in post-war period.

Re-conversion of plants to full peace work will involve neither engineering nor financial difficulty.

Con:

The government market for office equipment—very important in recent years of bureaucratic expansion and multiplying controls—may be near long term saturation; and certainly will not *grow* as much in future as in recent years.

Civilian demand, as for all capital goods, is subject to wide cyclical fluctuation; normal earnings of most in this field have varied considerably from year to year; great majority of the equities must be considered speculative.

Higher income and excess profits taxes will greatly restrict war-time earnings; and flat percentage limit *may* be placed on gross profit on war contracts.

The first quarter income statement of Underwood Elliott Fisher Company, ending March 31, 1942, and released on April 10, 1942, is most certainly illustrative of what higher taxes are going to mean to net income for the business machine industry as well as virtually every other great industry. Although consolidated net income, after deducting manufacturing, selling and general expenses, and all other charges but before depreciation and Federal taxes on income and capital, was $3,709,858, as compared with $1,174,809 for the same period in 1941, net income after taxes were deducted amounted to $393,582, or 54 cents a share for 1942, compared with $628,804, or 85 cents a share in the same period of 1941.

The annual statements of these four major companies in the business machine industry proves that before they converted to partial war manufacturing net earnings were increasing satisfactorily. Just what portion of their gross business and net earnings can be attributable to war products cannot, at this time, be ascertained. The Underwood Elliott Fisher Company quarterly statement for 1942 is most illuminating. It is a definite "straw in the wind" of what increased taxes are going to do to net earnings. Here is a case of a company more than doubling its net operating income and yet, when taxes are deducted, the stock earns only 54 cents a share, as compared with earnings in the similar period for 1941 of 85 cents a share. This, we feel, is not an isolated case, but typical of the reduction in income practically all industry is confronted with this year. Business will be good. There is no doubt of that. Gross sales and gross earnings will reach figures, in some cases, beyond the wildest dreams of directorates a few brief years ago; but

Internation Business Machine Photo

Machines simplify mail problems

heavy tax burdens and other mounting operating costs, will pare net earnings and dividends down considerably, in fact, below 1941 levels.

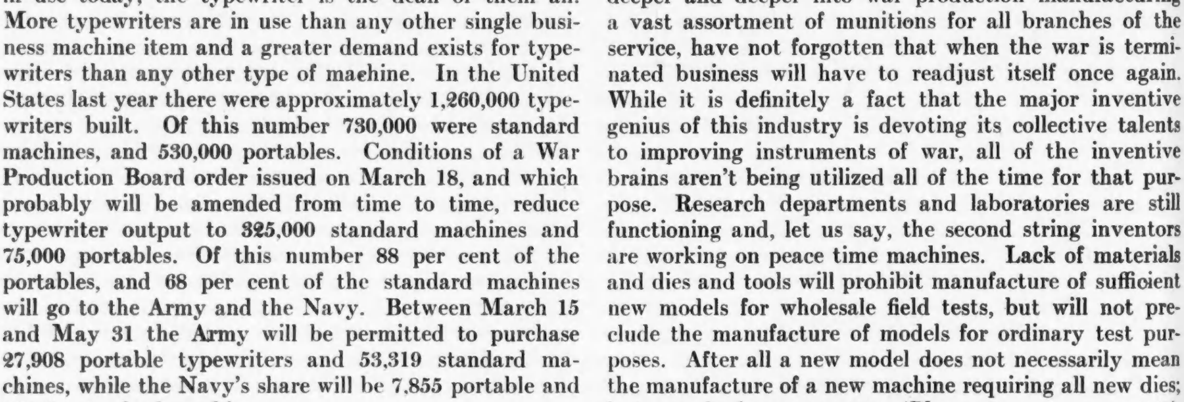
This does not mean, however, that any business machine company stock is singularly vulnerable, nor a mediocre investment. Not at all. The same tax and operating expense rise will affect all other industries. It is the law of the land.

Now to turn to the credit side of the ledger, to what is actually happening today and what may happen tomorrow, or the day after that. Of all business machines in use today, the typewriter is the dean of them all. More typewriters are in use than any other single business machine item and a greater demand exists for typewriters than any other type of machine. In the United States last year there were approximately 1,260,000 typewriters built. Of this number 730,000 were standard machines, and 530,000 portables. Conditions of a War Production Board order issued on March 18, and which probably will be amended from time to time, reduce typewriter output to 325,000 standard machines and 75,000 portables. Of this number 88 per cent of the portables, and 68 per cent of the standard machines will go to the Army and the Navy. Between March 15 and May 31 the Army will be permitted to purchase 27,908 portable typewriters and 53,319 standard machines, while the Navy's share will be 7,855 portable and 21,373 standard machines.

That all leads to the question of supply and demand again. The average life of a typewriter, used in business, is considered to be five years. The sale of typewriters, both new and used, was halted in March. If the war lasts another two years it will mean that the majority of the typewriters in use by business will be obsolete and ready for trade-in or other disposition. It is reasonably safe to assume that more than 60 per cent of the typewriters in use on January 1, 1942, were at least one year old, and at least a fair proportion of those in business offices were more than two years old. While it is true that if the war lasts several more years provision will probably be made to manufacture and sell a very limited supply of new typewriters to replace those beyond repair, there isn't the slightest chance that the bars will be lifted to the extent that anyone can simply walk into an office supply shop and buy a typewriter. In fact, if the bars on manufacturing are let down at all, it probably will be to meet the incessant demand for more typewriters for government agencies and the armed forces.

Efforts to induce Donald Nelson to waive priorities on typewriters and business machines on the premise American business cannot function expeditiously without their aid met with no sympathy. Mr. Nelson laconically replied "You can't throw a typewriter at a tank and stop it; nor can you shoot an adding machine into the air and bring down a Jap plane. Japan and Germany, who use far less business machines than we do, somehow appear to be managing the business of waging war. Waging war, that's our job today."

While manufacturing of business machines continues in ever-diminishing quantities, demands for the machines increase. Business machines companies who are getting deeper and deeper into war production manufacturing a vast assortment of munitions for all branches of the service, have not forgotten that when the war is terminated business will have to readjust itself once again. While it is definitely a fact that the major inventive genius of this industry is devoting its collective talents to improving instruments of war, all of the inventive brains aren't being utilized all of the time for that purpose. Research departments and laboratories are still functioning and, let us say, the second string inventors are working on peace time machines. Lack of materials and dies and tools will prohibit manufacture of sufficient new models for wholesale field tests, but will not preclude the manufacture of models for ordinary test purposes. After all a new model does not necessarily mean the manufacture of a new machine requiring all new dies; but merely improvements (*Please turn to page* 101)



Remingrand Photo

Mixed Outlook For The Drug Companies

Most Dividends Reasonably Secure Despite Supply Difficulties, Higher Costs and Rising Taxes

BY B. M. FULLERTON

Charles Phelps Cushing

Drug stocks worry druggists.

THE manufacture of drugs and medicinal products is normally one of the most stable branches of American industry. Although accounting for only some 6/10 of 1 per cent of United States production, it has shown consistent year-to-year growth that can be matched by few other industrial lines. Introduction of new items, consistent merchandising and advertising policies, extensive research and the essential nature of many products have placed it in a position where it is relatively unaffected by cyclical influences. The related cosmetic and toilet goods trade is more susceptible to the normal business cycle.

With the outbreak of the war, the drug and cosmetic field has been presented with many unexpected and complex problems. Important sources of foreign supplies have been cut off, forcing a hasty search for substitutes. Costs have been forced up materially and profit margins have been impaired. Cosmetic manufacturers are faced with the additional threat of higher excise taxes, shortages of essential oils and decreased consumption of luxury items. Retail chains may have considerable trouble in replacing much of the miscellaneous stock that is now a normal part of their business.

To a certain degree the war has brought compensations for these unfavorable developments. Export demand, particularly from South America, is rising rapidly as a result of the elimination of German and Continental competition. Higher costs can, in many instances, be offset by decreased advertising, which is the largest single expense item in the budget of the average producer of cosmetic and proprietary articles. Tax credits for many companies are reasonably favorable. Government demand for medicinal products is increasing sharply. The war may prove the incentive for the promotion of new articles which otherwise would have been overlooked in favor of better established and accepted consumer lines.

The position of the drug and cosmetic trade with respect to raw materials can be shown by citing a few of the items affected by the war. Supplies of alcohol will be greatly limited by its diversion to the manufacture of munitions. Tin for tooth paste containers, an article for which no satisfactory substitute has been found, may prove a luxury which the country cannot afford. Pig bristles used in many brushes are on the crucial list, since imports from China have been practically cut off by the war. Camphor, menthol, cinchona bark, cocoanut oil, pyrethrum flower, orris root and a host of other items constitute a formidable list of critical supplies.

The crucial shortage of many essential materials, and the difficulty of finding adequate substitutes within the

continental limits of the Americas, have caused a sharp rise in costs. While inventories were at the highest point of a decade at the year end, they were, at best, sufficient to insure operations for only a few months. Attempts to find substitutes are being pushed vigorously, but many of the problems so far have proved insurmountable. Lack of tin for containers may force changes not only in packaging but in the form of dentifrices. Items depending wholly on foreign sources of supply may, in some cases, have to be eliminated. The manufacture of cosmetics may be seriously affected by restrictions on the use of alcohol and packaging limitations. In many instances manufacturers' prices have not been raised sufficiently to cover higher costs.

Despite the many problems, the immediate sales outlook is not, on the whole, too discouraging. Present indications are that, so long as inventories last, sales may approximately duplicate the 11 per cent gain of last year. With the exception of the cosmetic manufacturers, it appears that most of the leading firms will be able to maintain profit margins on a fairly satisfactory basis, that, although lower, net income of the concerns with a good tax credit will hold reasonably well, and that, in those instances, dividends will be relatively liberal.

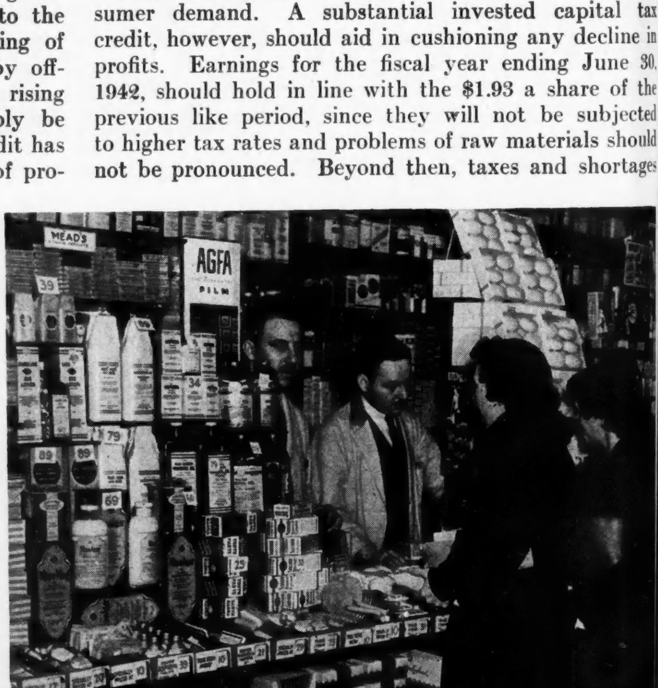
Perhaps the most serious threat is to the companies like American Home Products, Lambert Company, Bristol-Myers, Lehn & Fink or United Drug, doing a large business in proprietary items and cosmetics or operating extensive retail chains. These concerns, on the whole, face equally difficult supply and more serious packaging problems than the manfuacturers of so-called ethical drugs and, in some cases, may have to change the form or curtail the quality of their products. Fortunately they have some compensating advantages. Advertising can be devoted largely to the promotion of new items or to the merchandising of those not affected by material scarcities, thereby offsetting to a considerable extent the effects of rising costs. Some Government business can probably be obtained. And, for the most part, a good tax credit has been built up, which should provide a measure of protection against any serious earnings decline.

The position of these companies can be illustrated by listing some of their products. Bristol-Myers, for instance, manufactures a widely known line of pharmaceuticals and cosmetics among which are Ipana Tooth Paste, Vitalis, Sal Hepatica, Mum, Ingram's Shaving Cream and Rubberset brushes. Packaging difficulties may effect many of these items, especially Ipana, for which the company has found no adequate substitute for the present tin container. The bristles used in Rubberset brushes came from China, and the supply problem has become acute, with inventories at the year-end estimated as covering only three months requirements. On the other hand, the company may be able to overcome some of its difficulties through the use of its extensive research facilities, while the appreciable quantity of products sold to the armed forces will provide a further offset. Higher tax rates will unquestionably cut profits below the $4.29 a share of 1941, but coverage of the quarterly 60 cent dividend rate seems reasonably assured.

American Home Products, for its part, is in much the same position as Bristol-Myers. Products include such items as Kolynos Dental Cream, Bromo Quinine, Neet, Petrolagar, Anacin, "Kissproof" and "Edna Wallace Hopper" cosmetics and Black Flag insecticides. Although year-end inventories totaled $12,687,734 as against $6,541,919 in 1940, threatened material shortages unquestionably present a serious problem. The company has followed a consistent policy of absorbing smaller firms in the household specialty field and might possibly be able to strengthen its position by acquiring concerns which are relatively free from war problems, but its ability to do so is more doubtful than in more normal times. Favorable factors are the substantial quantity of Government contracts for medicinal, household and nutritional products, growing export demand and a relatively high tax credit. Provided sales can be reasonably well maintained, earnings should be well in excess of the regular dividend of $2.40 a share.

Lehn & Fink

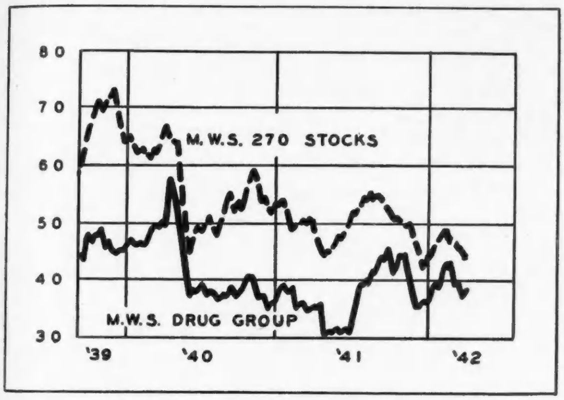
Lehn & Fink is in much the same position as American Home Products and Bristol-Myers. Products include such well known items as Pebeco Tooth Paste, Lysol, Hinds Honey and Almond Cream and Dorothy Gray cosmetics. Sales are largely concentrated in the United States, although subsidiaries are operated in Great Britain and Canada. The importance of luxury items is not a point in the company's favor, since the risk of loss of competitive position through the reduction of advertising expenditures is greater, although something of that nature may be necessary to offset material scarcities, rising costs and curtailment in consumer demand. A substantial invested capital tax credit, however, should aid in cushioning any decline in profits. Earnings for the fiscal year ending June 30, 1942, should hold in line with the $1.93 a share of the previous like period, since they will not be subjected to higher tax rates and problems of raw materials should not be pronounced. Beyond then, taxes and shortages



Philip Gendreau

will probably have the effect of reducing net. Future dividend distributions are unlikely to equal the $1.60 a share paid in 1941.

The position of Lambert is somewhat more uncertain than that of most makers of proprietary items, due to its dependence on a single product. About 60 per cent of sales come from "Listerine" antiseptic, which might prove a partial war casualty. Other products are Listerine tooth paste, or powder, Listerine shaving cream, Pro-Phy-Lac-Tic brushes, Masso tooth brushes and Listerine cough drops. That the management foresaw its present problem is indicated by the fact that inven-



tories increased from $1,743,974 to $3,463,497 during the year ended December 31, 1941. This should provide protection for a number of months, but unless the company is able to solve the supply problem in the interim, it should face later difficulties. The situation is unfortunate, in that some indication of a reversal of the long decline in earnings has been in evidence during the last two years. Whether the company will be able to maintain sales is not clear. If it can, earnings, should hold at relatively good levels, although the current dividend of $1.50 a share may not be covered.

United Drug

The problem facing the retail druggist is well illustrated by United Drug. The company, through subsidiaries, manufactures a long list of proprietary items, candies, and miscellaneous goods sold in drug stores. In addition it operates approximately 600 retail establishments in the United States and Canada. Products are sold through these and through 11,400 franchised "Rexall" stores in this country, England, Canada and the Irish Free State.

United Drug faces not only the usual difficulties of the drug and cosmetic manufacturer, but also those of the retail druggist. Many of the miscellaneous items which go to make up the stock of the average drug store are becoming practically unobtainable, indicating that the exhaustion of present inventories may force a severe decline in sales. This prospect may account for the extremely low price-earnings ratio at which the stock has been selling lately, and also for the recent statement of President Galvin that dividend action was being postponed in view of business uncertainties, the need to conserve funds for debt maturities, working capital and increased inventories. In any event maintenance of the 1941 earnings rate of $1.87 a share appears highly improbable at least at this time.

Altogether the outlook for the drug trade is not particularly promising. Manufacturers of ethical products and such proprietary items as are not affected by raw materials shortages should do reasonably well, but the average producer is faced with serious difficulties in obtaining supplies, with excise taxes on luxury items, some probable decline in consumption, rising costs and, finally, higher taxes. There may be some compensating advantages in the long run, in that it should stimulate research work and the promotion of new items which will swell the list of desirable products under more normal conditions.

For the time being, however, the introduction and promotion of new products is not likely to offset the effects of war casualties. At the moment the most promising aspect of the situation, from the investors' standpoint, is that the market appears to be giving a reasonably good appraisal of the outlook. Many of the drug and allied shares have declined to a point where they may be assumed to have largely discounted any drop in earnings and where they offer a good return on probable dividends. Dividend prospects, however, should be rated only after a reasonable allowance for some reduction from the level of 1941 payments. Even so indicated return would be quite liberal based on recently quoted prices.

Harris & Ewing Photo

Drug trade faces packaging problem.

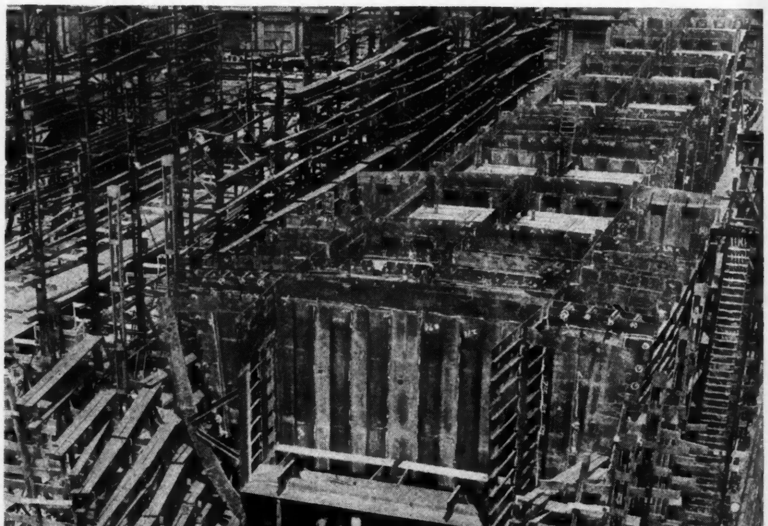
FOR PROFIT AND INCOME

Crucible Steel Preferred

Along with an extensive list of common stocks, a number of preferred shares have broken sharply in recent market sessions to new lows for the year. In the case of preferred issues of public utility holding companies, the reasons are obvious: dividends may be imperiled by reduced income from operating subsidiaries if the Treasury's tax proposals are enacted. In the case of a number of medium grade industrial preferreds, however, price weakness, whatever its cause, would not appear to have originated in doubts over earnings protection for dividends. A case in point is Crucible Steel $5 preferred shares. Recently quoted at 69 the shares yield 7.25 per cent on a dividend currently being covered by a substantial margin. Earnings of the company last year were sufficient to cover preferred dividends about 4½ times. Further gains were recorded in the first quarter this year. Recently, at the company's annual meeting, F. B. Hufnagel, chairman and president, stated that earned surplus was considered adequate to insure preferred dividends for a reasonable number of years. Such being the case, recent price levels would seem to offer an attractive buying opportunity for the investor in search of a better than average return.

Industrial Pattern

A pretty definite idea of what the current pattern of industrial production and profits will be was afforded in a single day recently when three large companies reported to stockholders. This year General Electric will produce $1 billion in war goods. This would compare with total sales last year of $679 million. Sales of Union Carbide are running at an annual rate of $400 million against $318 million in 1941, and American Locomotive's current production will be about three times the $73 million in 1941. Equally significant, however, was the fact that General Electric set aside $45 million for taxes and contingency reserves in the first quarter against $22 million a year ago. Depreciation and taxes of Union Carbide in the first quarter this year were $21.5 million compared with $13.5 million last year. With taxes computed on the basis of the 1941 law, profits of American Locomotive in the first quarter were approximately $2 million, but would be cut to about $1.1 million on the basis of the Treasury tax proposals. There in brief is the picture: sales and output way up, taxes way up, earnings barely holding their own with last year. Reports like these promise to be duplicated many times over by other companies and the company with earnings ahead of last year will probably be a noteworthy exception.



Bethlehem Steel Co. Photo

Arms production is gaining but not the ships to deliver it. Shipbuilding is proving to be the toughest bottleneck to break.

Sugar Companies

Mr. and Mrs. Consumer will have their sugar rationed but for all groups of sugar producers everything shapes up to indicate a banner year. Production will be materially increased in all areas and prices are up, two conditions which should enable most companies to absorb higher operating costs and taxes without difficulty. This year it is estimated that the Cuban crop will approach 4,000,000 Spanish long tons against 2,400,000 tons last year. The guaranteed price of 2.65 cents a pound is the highest in more than ten years. Puerto Rican crop will be upped to 1,200,000 short tons, or a third more than last year. All planting and quota restrictions on domestic beet sugar production have been removed. Shipping difficulties have piled up large stocks in Cuban and Puerto Rican warehouses, but this situation is being alleviated by re-routing shipments to southern ports and from there by rail. The latter expedient is more expensive but the extra charges are being absorbed by the Defense Supplies Corp.

Dividends

In a tabulation compiled by the New York Stock Exchange it was revealed that total dividends paid by listed common stocks in the first quarter of this year amounted to only $430,173,000 against $436,162,000 in the same period last year. On the other hand 457 common stock issues paid dividends this year compared with 430 in 1941. Dividends paid this year by preferred stocks were practically on a par with those a year ago. Dividends on 108 common stock issues were increased during the first three months of 1942, while 69 issues reduced payments to stockholders. During all of 1941, 396 common stock dividends were revised, but already this year 177 payments have been changed. *The Exchange* comments: "While the stock list as a whole continues to contain a higher number of dividend-paying issues, fewer increases in dividend rates and more numerous reductions are expected in coming months." (The matter of lower dividends is discussed on page 66 of this issue.)

The following tabulation, compiled by "The Exchange," shows dividend payments of listed Stock Exchange common stocks during the first three months of 1942:

	No. of Issues Listed	No. Paying Div. in 1st 3 Mos. 1942	No. Paying Increase Dividends	Estimated Div. Payments: 1st 3 Mos. 1942	Per Cent Change
Amusement	14	7	2	$2,446,000	+ 9.7%
Automobile	61	27	7	36,114,000	— 24.7
Building	27	13	0	3,963,000	— 1.0
Business and office equipment	9	6	1	2,286,000	+ 3.0
Chemical	67	52	11	54,663,000	— 6.6
Electrical equipment	16	11	2	14,967,000	+255.3
Farm machinery	6	3	1	3,314,000	+ 15.3
Financial	29	16	1	15,747,000	— 7.9
Food	56	36	8	21,572,000	+ 0.3
Garment	5	3	2	628,000	+ 45.0
Leather	12	8	2	2,799,000	+ 11.4
Machinery & metal	76	48	21	16,700,000	+ 16.4
Mining	34	16	3	19,959,000	+ 3.9
Paper & publishing	25	18	9	3,370,000	+ 36.1
Petroleum	37	19	4	33,316,000	+ 6.9
Railroad	80	30	2	31,468,000	+ 6.1
Retail merchandising	65	39	8	25,208,000	— 13.3
Rubber and tire	7	4	0	1,824,000	— 24.3
Shipbuilding and operating	9	4	4	1,025,000	+ 79.8
Steel, iron & coke	38	21	7	21,763,000	+ 11.8
Textile	23	12	5	3,114,000	+ 7.6
Tobacco	19	15	1	15,673,000	— 8.2
All public utilities	47	25	2	76,223,000	— 7.4
U. S. companies operating abroad	23	10	1	8,087,000	— 4.0
Foreign companies	13	9	3	12,943,000	+ 6.7
Other companies	37	5	1	1,001,000	— 29.1
Total	835	457	108	$430,173,000	— 1.4%

Bank Stocks

The Treasury tax proposals, if enacted, will strike a severe blow to earnings and dividends of banking institutions. Anticipating higher taxes, one leading New York City bank has reduced its dividend. The Treasury has recommended that the present 7 per cent surtax be increased to 31 per cent, and it is this proposal which will hit banks the hardest. Heretofore, banks' share of the tax load has been comparatively small due in part to that portion of their income contributed by partially tax exempt securities. Income from loans and investments this year will be higher but not sufficiently so in many cases to offset potentially higher taxes, and lower dividends are foreshadowed.

So They Say—

Bureau of Agricultural Economics predicts sharply higher industrial production, strong upward pressure on commodity prices and an increasing shortage of labor. . . . Orders for war materials booked by U. S. Rubber in the first quarter were larger than similar orders for all of 1941. . . . The President's share of his mother's estate has been cut 30 per cent by the decline in the market. Taxes will make another sizable dent. . . . According to Aeronautical Chamber of Commerce total aircraft production last year was $1,750 million, against $544 million in 1940 and $225 million in 1939. . . . Bonds issued by toll bridges and highways have taken it on the chin. Gasoline rationing and tire shortages will cut into revenues. . . . Masonite is one company not worried by raw material shortages and operations are on a 24-hour basis. . . . Remington Arms this year will make more small arms ammunition than all companies combined during the First World War. . . . Here's a good tip: tip that waiter and doorman with War Stamps. . . . Idea of the Week: Milkmen may make bread deliveries to save on tires and gas. . . . WE'LL WIN IF YOU BUY WAR BONDS. . Domestic copper production this year will set an all-time high. . . . Skelly Oil, not bothered by transportation, will show 30% increase in first quarter profits.

WAR PLANT CONVERSION AND FINANCING

Editor's Note: This page is devoted to case histories of small plant conversions. In accordance with War Production Board policy, names and addresses are not presented.

This is the case of the "L" firm, a small establishment in New York City formerly engaged in making ships' galley equipment. Looking about for subcontract war work it was capable of doing, the young owner and his production manager decided on ammunition boxes. It obtained specifications, turned out an experimental order which was accepted by Naval inspectors and then went to town. It sent salesmen to contact shipbuilding contractors along all coasts and the Great Lakes. Orders were thus obtained from ten ship prime contractors. With the orders on hand, the firm was able to finance purchase of additional machine tools. Today it is established in larger quarters, employs 90 workers and is operating on a 3-shift, 7-day week, turning out 35 different items of equipment for over 70 shipbuilding companies. Says the owner of this business: "There's no mystery to subcontracting. If you want to do war production work, you've got to sell your firm to prime contractors the same way you'd sell your regular commercial product."

The "F" company is a manufacturing jeweler in New York City, employing 40 skilled craftsmen. Foreseeing the approaching squeeze for its regular business, it switched to the making of surgical instruments and now has orders for nine different items of this kind. This conversion was very simple. The workers already employed had the necessary skills; and no change in equipment was needed except to add one small lathe. The company prefers subcontracting to prime contracting "because it saves us a lot of work." The lesson taught here is to search for the kind of war work best fitted to the skills of your present labor force and best suited to your present equipment.

•

Chief products of the "G" company used to be metal games for children and orange juice squeezers for housewives and soda fountains. It employed only 12 people and was mainly an engineering and assembly proposition, farming out production of parts to other manufacturers. But its assets for war production was a good engineering know-how for precision work. Digging up more capital, it bought out two small tool and die plants and moved the equipment into its own plant. First war order was for gauges for the British Purchasing Commission. Next a concern making small arms ammunition gave it an order for cartridge tools. Four Federal aresnals have since placed orders with it for jigs and fixtures, gun control devices, etc. Today this firm employs 75 people, has an $800,000 backlog, is operating at capacity on a multi-shift basis and is planning additional expansion of facilities.

N. Y. A. Photo.

Cutting Sheet Metal Siding for Ammunition Box

The rules of the game under which you do business now face an imminent shakeup in comparison with which all previous changes incident to the nation's war conversion will seem mild. The areas of drastic action most important to you include prices, faster curtailment of non-essential production, rationing and profits. Soon there will be only two types of industrial production; production for war, production for essential civilian needs. And essential needs of civilians will be measured increasingly o na Spartan basis.

Already there is a rising trend of bankruptcies among small industrial concerns and this inevitably will be intensified. The manufacturer unable to convert to war work is now "The Forgotten Man", without any effective champion in the councils of the Government.

Even when maximum war output is reached,at least 40 to 50 per cent of our total economic activity will be geared to essential civilian needs. This whole sector of our private enterprise system is increasingly a political step-child. Without interfering with the war effort, it would be possible to give these non-war producers at least some degree of special consideration in price regulation and tax and wage policy. But the Administration seems either oblivious of, or indifferent to, this problem. There will be no change of attitude unless it originates in Congress, and effective action there is unlikely.

Combined volume of war needs and minimum civilian needs will be so vast as to provide potential opportunity for every industrial producer in the country. If your present status is that of non-essential manufacturer, you have more than the one, and often impossible, alternative of converting your plant to war work. The other way out is to convert from non-essential civilian goods to civilian essentials.

It is authoritatively estimated that the bulk of all small metal-working plants could be kept going on at least a maintenance basis if they were allowed to have as much as 4 per cent annually of the supply of priority metals. Mr. Nelson has already turned thumbs down on this argument. True, war needs must get first consideration, but we are now making arms and munitions faster than we can make ships to take them abroad and all signs indicate that will continue to be the case for some time to come.

The Government will find that complete stoppage of metal products for civilians is impracticable. This isn't a matter of gadgets. The essential repair of consumers' durable equipment and apparatus, and of the machinery in plants making clothing, processing food or otherwise serving necessitous needs of civilians, requires an annual volume of maintenance parts which unquestionably greatly exceeds total normal annual sales volume of all the small metal-working plants. Many such plants,although by no means all, could be converted to manufacture of essential maintenance products. This would permit large suppliers of such products to concentrate 100 per cent on war work, shift production of an important proportion of metal maintenance fabrication to small plants.

Distribution of war contracts is in the hands of officials preoccupied with the job of getting maximum production—and it can be had most readily from large plants. These officials from Nelson down favor broad subcontracting as a mean s of getting increased production but

naturally it's production that gets the emphasis and such aid as is thus given to the cause of keeping small firms from extinction is incidental and secondary. No official can be more than lukewarm to incidental and secondary responsibilities. More would be done to aid small business if the emphasis were put the other way around; if some one, say Leon Henderson, was responsible for seeing that everything reasonably possible, short of actual interference with the war effort, is done to aid small plants in conversion either to war work or essential civilian work. This is not to be expected from the present set-up.

Sheer pressure of production needs offers greatest hope to small plants that a solution will ultimately be found — but how long is ultimately! With materials scarce, there is a limit to new plant construction. We can't have either maximum war production or adequate production of civilian essentials wiithout utilizing all of our producing resources. This implies that inevitably the Government must force prime contractors to subcontract on the widest possible basis, and that, as regards small plants unable to do war work, the Government will have to take much more positive and comprehensive steps to induce and aid the largest possible number of them to convert to essential civilian goods.

War Production Board is making a belated experiment in compulsory subcontracting in the current conversion of the radio manufacturing industry. This industry was also the first guinea pig for testing of industry-wide metal allotments. Idea of the new subcontracting scheme is to set up regional pools. Radio producers without prime contracts will be "assigned" to some one prime contractor. As far as possible, geographic location will determine each pool's set-up, but previous seller-buyer relationships will also be considered. Eventually the Government's end of the radio pools will be handled by a deputy procurement office affiliated with the Signal Corps. At best, not all small radio firms can be saved. Some of the small parts makers will fold; but there is over one and a quarter billion dollars of war work in sight to be spread around and more to come. If the experiment works well for the radio industry, it will later be applied to others.

A prominent industrial engineer, who prefers not to be quoted so bluntly, tells us that the bigest obstacle he encounters in small plant conversion is neither deficiencies of equipment nor the matter of financing but just dumb management! Of course, he is not referring to you—but it will do you no harm to think it over. Your own initiative can do more to keep you solvent and active in essential production, whether for war or civilians, than can be done for you by all the Government planners put together.

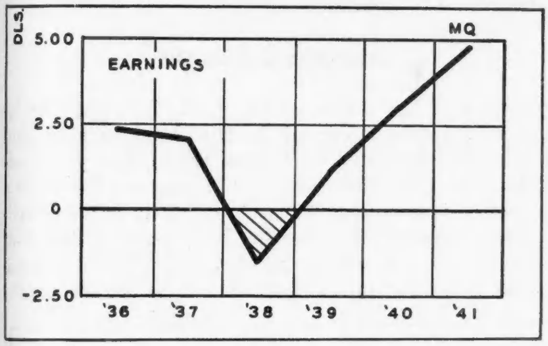
General appeals from Nelson will not significantly expand subcontracting nor make it work better. Three things are required: (1) More real Government pressure on prime contractors; (2) prime contracts big enough so there is plenty in it for all, thus minimizing the fight over the alloted money; (3) strong trade association set-up or its equivalent to settle inevitable disputes and maintain effective liaison along industry or sub-industry lines between Government, prime contractors and subcontractors.

Four Stocks with High Quick Assets and Good Earnings

BY FRANK R. WALTERS

Mack Trucks

Impressive liquid resources and a relatively high tax credit place Mack Trucks in especially sound position to pass through the war period with capital unimpaired. On December 31, 1941, the company's net working capital amounted to $45.86 a share, a quick liquidating value of approximately 50 per cent in excess of the recent price of 30. A good part of this represented readily salable inventories of $26,022,028, an increase



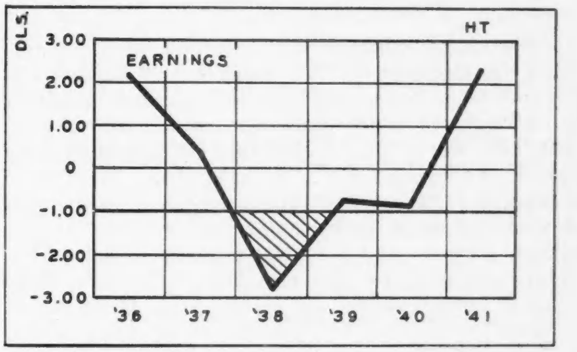
of some $9,500,000 during the year. Taxes should be less of an earnings deterrent than for most manufacturers, as indicated by the fact that the rates proposed by the Treasury would have cut net income to only $3.67 a share in 1941, instead of the $4.93 actually reported. Despite lower profit margins on Government work, profits consequently should hold above the 1941 dividend rate of $3 during the current year.

Mack Trucks is completely ready to turn over whatever part of its facilities are necessary to the war effort. The company already has large orders for tractors, trucks, tank transmissions, wreckers and diesel engines for the armed forces. At present much important war work is as much as 50 per cent ahead of schedule. Material shortages and the relative importance of certain war items will be governing factors in production schedules, but it is indicated that by the end of the year some 80 per cent of Mack's business may be accounted for by Government orders. The problem of conversion has been simplified by the ready adaptability of most of the company's facilities to armament output. No serious dislocation of operations is in consequence looked for as a result of the change-over.

In spite of the strong working capital position, the war is making substantial demands of the company's finances. Because of the necessity for carrying large inventories and accounts receivable, the management found it necessary to negotiate bank loans of $4,000,000 in 1941. As a result of the demands on cash resources, a somewhat more conservative dividend policy may be initiated, although distribution should continue to be relatively liberal in relationship to earnings.

Hudson Motor Car

As one of the marginal producers which will actually benefit by the elimination of passenger car production, Hudson Motor Car should emerge from the war period in the strongest position of the past decade. In 1941, aided by a substantial tax carryover, the company was able to report net income of $2.35 a share. Lower profit margins on Government work and substantially higher taxes are likely to prevent duplication of the 1941 level



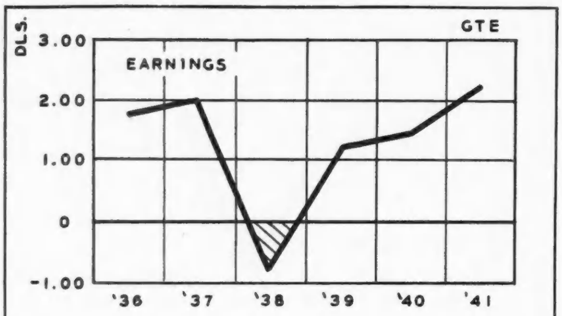
during the rest of the emergency, in spite of additional revenues for managing Government owned plants. Nevertheless, the huge backlog of war orders and constantly accelerating deliveries point to the only period of sustained earnings in the last ten years.

Hudson's present backlog of unfilled war contracts is probably well in excess of the year end total of approximately $120,000,000. Once the company has completely converted to war work, deliveries should be at a rate of several times 1941 sales of $66,827,146, as indicated by the fact that production of certain important war items is already three times the amount called for in earlier schedules and that output of some other products is substantially ahead of the requirements of assembling plants. Funded debt, which stood at $1,213,323 on

December 31, 1941, should be reduced by at least $600,000 this year and might be fully repaid. Despite heavy demands of liquid resources, further strengthening of the working capital position is indicated. Net quick assets at the year end totaled $6.66 a share, as compared with a recent price for the stock of 4. Dividends will await retirement of outstanding first mortgage notes, on which, unless prepaid, the last installment matures on August 1, 1943.

General Theatres Equipment

Among those companies which appear to be making a real contribution to their post-war prospects through participation in the war effort, General Theatres Equipment deserves special consideration. The normal business of this company is the manufacture and distribution of theatre equipment such as projectors, arc lamps, screens, sound equipment, accessories and motion picture cameras for amateur and professional use. Most



of the company's facilities are adaptable to the making of precision instruments for the Army and Navy, and the substantial volume of war orders on hand has provided the incentive for the acquisition of similar concerns whose facilities should provide a desirable addition to its resources under peace-time conditions. During 1941, Librascope, Inc., of Burbank, Calif., and Hertner Electric of Cleveland, Ohio, were absorbed. The former is engaged in the manufacture of technical instruments of a radical design suitable for both commercial and military purposes and the latter in making electric generators and generator sets, now being sold to the Government, but adaptable to peace-time use. Giving effect to these acquisitions, consolidated net working capital on December 31, 1941, amounted to $11.35 a share, or only slightly less than the price of 12 at which the stock recently sold.

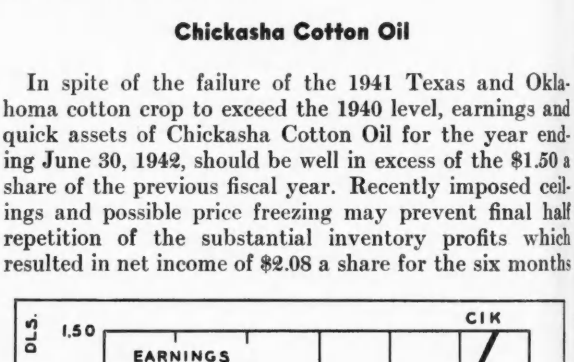
Earnings prospects of General Theatres Equipment appear promising, although they are not subject to accurate appraisal. The National Theatre Supply subsidiary did the largest volume of business in its history in 1941, but should experience some curtailment in sales for civilian purposes this year, because of existing and anticipated restrictions on the manufacture of such items. On the other hand manufacturing operations of the company should be at full capacity, and, with the new facilities acquired last year, the heavy volume of military orders should more than offset the loss of civilian business and cause a substantial increase in sales over the $14,048,798 reported in 1941.

Whether the company's net income will equal the $2.25 a share of last year is more doubtful. Profit margins on Government business will be smaller, and higher taxes will impose a heavy burden. It seems probable, however, that net income from operations will cover the $1 dividend paid last year by an adequate margin and to operating net must be added whatever nontaxable dividend income is received from holdings of 185,600 shares of Twentieth Century-Fox Film Corporation, on which 25 cents a share has already been paid this year. Despite this prospect, dividend policy will probably be subject to review from time to time, in the light of the demands which participation in the war effort are making on the company's financial resources. The necessity for carrying larger inventories and accounts receivable and meeting rising labor costs has already increased cash requirements sharply, as the result of which the management has made arrangements for bank credit which are regarded as adequate to take care of prospective needs this year. It is anticipated that demands on cash holdings will continue upward for the immediate future, at least.

At the annual meeting on April 28, 1942, stockholders will vote on an amendment to the certificate of incorporation changing the company's name from General Theatres Equipment Corporation to General Precision Instrument Corporation.

Chickasha Cotton Oil

In spite of the failure of the 1941 Texas and Oklahoma cotton crop to exceed the 1940 level, earnings and quick assets of Chickasha Cotton Oil for the year ending June 30, 1942, should be well in excess of the $1.50 a share of the previous fiscal year. Recently imposed ceilings and possible price freezing may prevent final half repetition of the substantial inventory profits which resulted in net income of $2.08 a share for the six months



ended December 31, 1941. Nevertheless profit margins from crushing operations should be at a satisfactory level. Because of the smaller crop, inventory volumes may be somewhat lower than at the year end, but the sharp rise in prices will probably cause an increase in net working capital over the $17.09 a share at the end of the previous fiscal year.

Chickasha Cotton Oil is one of the largest factors in the cotton oil field. Over 200 cotton gins and 11 oil mills are owned in northern Texas and western Oklahoma. Operations are largely confined to the manufacture and distribution of crude or semi- (*Please turn to page 102*)

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry wll be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

New Jersey Zinc Co.

While I was glad to note the earnings improvement reported by New Jersey Zinc during 1941, I note that the earnings for the last quarter of the year did not show so well compared with the previous year. Do you know the reason and does it indicate any basic downward trend? Shall I continue to hold my 50 shares purchased at 69 with the hope that my purchase price will be regained and last year's $4 dividend is reasonably secure?—R. H. S., Milwaukee, Wis.

While earnings of New Jersey Zinc Co. did, as you point out, decline in the closing quarter of last year, we do not feel that this indicates any basic downtrend in the earnings picture. The company should be able to maintain production at approximately the estimated 120,000-ton annual capacity and, while operating costs and taxes are tending higher as is the case with industry generally, earnings for the year as a whole should not fall much below the $4.88 a share reported for 1941. As the largest domestic zinc producer, the heavy war time demand for metal seems to assure capacity operations at least for the duration of the war emergency. Because of low production costs, the company has demonstrated its ability to maintain earnings at a satisfactory level, even during periods of low metal prices. The company's zinc mine at Franklin, N. J., is said to contain an ore not to be found in commercial quantities anywhere else in the world. This ore contains an oxide known as Franklinite. Upon removal of the zinc portion of the Franklinite, the residue serves as a raw material for the production of a very valuable alloy used in the purification of steel or iron. With steel production attaining all-time record highs, production of this alloy is of special significance to our war program, because of the fact that the steel industry normally is dependent upon imports of manganese alloys which the New Jersey Zinc product displaces. Since the company does not publish a balance sheet, an appraisal of finances is most difficult, but the earnings record and general efficiency of the company suggest that finances have been maintained in excellent shape. When last reported, back in 1934, working capital amounted to nearly $30 a share and while dividend payments have been liberal, some further improvement in finances likely has occurred. The company's New Jersey production constitutes the bulk of output, but it also operates a zinc, lead and copper-silver mines in Colorado as well as a zinc mine in New Mexico. There is also a subsidiary operating a zinc-lead mine at Austinville, Virginia. The company has no foreign properties and the only income from abroad is normally in the form of royalties on a patented process for smelting zinc ores. Last year the company paid a total in dividends of $4 a share. In the first quarter this year 50 cents a share was paid. While future dividend policy doubtless will be governed to a large extent by the matter of taxes, we feel that income will be maintained at a relatively satisfactory level and counsel continued holding of your 50 shares for eventual market improvement.

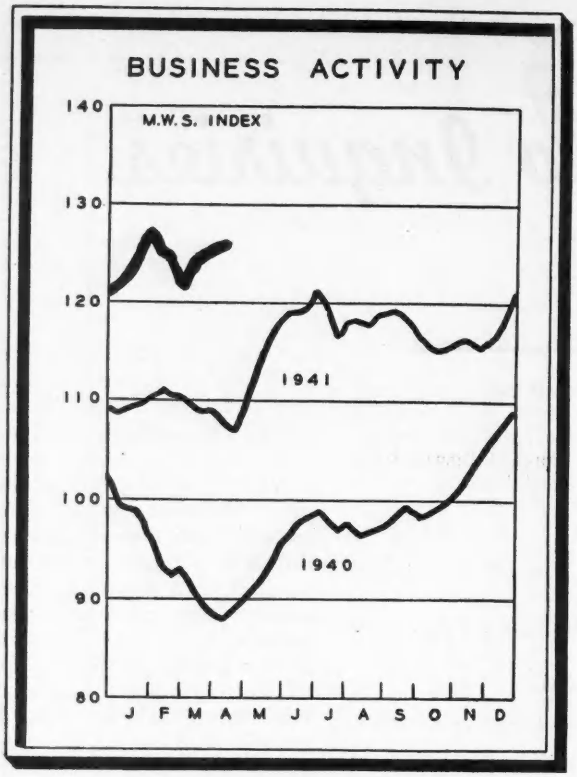
Tennessee Corp.

What is your present opinion of Tennessee Corp. common? You were right several months ago in advising me to hold 200 shares which cost me 7. I have been pleased with the way the stock has held and the $1 dividend received last year. The earnings of $1.60 in 1941 were also very gratifying. Would you counsel buying 200 additional shares around 8 for income and capital growth. Please let me have your latest report and appraisal.—E. D., Boise, Idaho.

The relatively favorable market performance of Tennessee Corp. over recent months is readily justified by an examination of the company's earnings report for the year ended December 31, 1941. In that year sales increased sharply to $17,820,304 as against $13,678,063 in 1940 and $11,710,426 in 1939. Despite higher costs and taxes, net

(Please turn to page 97)

When Quick Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.



CONCLUSIONS

INDUSTRY—First quarter profits below last year, owing to changeovers and liberal reserve for contingencies and taxes; but second half will make much better showing.

TRADE—Retail price ceilings will hit store profits unless allowance is made for wholesale-retail price tag.

COMMODITIES — Wholesale prices have advanced much less this time than during comparable period of World War I.

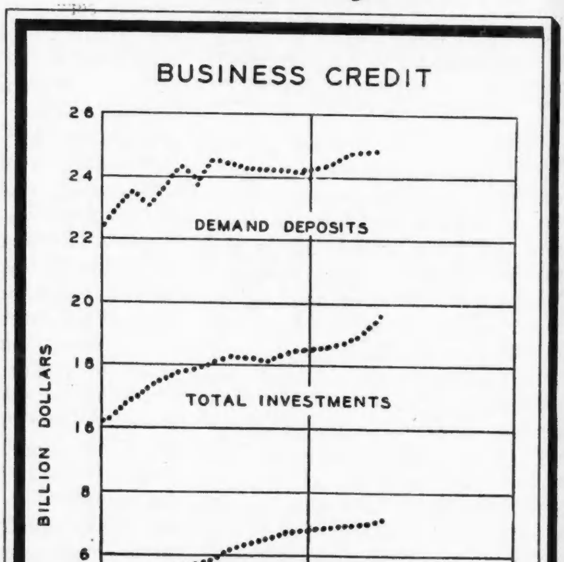
MONEY AND CREDIT—Bond offerings in April will approximate $175 million, the largest since January.

The Business Analyst

As **war expenditures** pass the $100-million-a-day level, and with **bituminous coal** consumers at last heeding the Government's admonition to stock up early, this publication's index of per capita **business activity** has advanced nearly a point within the last fortnight. Early reports for the first quarter point to a decline of perhaps 25% in corporate **profits** when compared with the like period last year, owing mainly to heavier reserves for taxes and contingencies, and in lesser extent reflecting interim losses arising from cessation of business while converting to war work. Reports for the second half year will make a considerably better showing, especially among the so-called "conversion industries" whose profit outlook is exceptionally bright—not only for the duration, but also post-war.

* * *

Dividends paid during the first quarter by 457 of the 835 issues listed on the New York Stock Exchange, reflecting last year's earnings, were only 1.1% below the like period in 1941. Increases of 255% were announced by the electrical equipment group, 80% by shipbuilding and operating companies, 45% by garment makers and merchants, 36% by paper and publishing and 16% by metal mining and machinery companies.



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	Mar.	174	173	147
INDEX OF PRODUCTION AND TRADE (b)	Feb.	112	114	105
Production	Feb.	120	120	107
Durable Goods	Feb.	126	127	111
Non-durable Goods	Feb.	114	114	104
Primary Distribution	Feb.	110	109	97
Distribution to Consumers	Feb.	96	103	106
Miscellaneous Services	Feb.	108	108	100
WHOLESALE PRICES (h)	Mar.	97.6	96.7	81.5
COST OF LIVING (d)				
All Items	Mar.	96.1	95.1	86.3
Food	Mar.	97.5	95.7	79.2
Housing	Mar.	90.7	90.4	87.7
Clothing	Mar.	85.8	84.5	73.2
Fuel and Light	Mar.	90.4	90.4	86.4
Sundries	Mar.	103.5	102.9	98.3
Purchasing Value of Dollar	Mar.	104.1	105.2	115.9
NATIONAL INCOME (cm)†	Jan.	8,143	9,080	6,695
CASH FARM INCOME†				
Farm Marketing	Jan.	986	1,151	670
Including Gov't Payments	Jan.	1,097	1,235	754
Prices Received by Farmers (ee)	Mar.	146	145	103
Prices Paid by Farmers (ee)	Mar.	148	147	124
Ratio: Prices Received to Prices Paid (ee)	Mar.	99	99	80
FACTORY EMPLOYMENT (f)				
Durable Goods	Feb.	143.6	143.4	121.0
Non-durable Goods	Feb.	122.7	121.8	114.7
FACTORY PAYROLLS (f)	Feb.	176.9	173.5	126.8
RETAIL TRADE				
Dept. Store Sales $ †	Feb.	3,715	4,211	3,538
Durable Goods (a)	Feb.	109.5	116.7	173.7
Non-durable Goods(a)	Feb.	150.1	156.5	124.6
Chain Store Sales (g)	Mar.	169	165	128
Retail Prices (s) as of	Mar.	112.5	111.9	94.9
FOREIGN TRADE				
Merchandise Exports†	Dec.	$652	$491	$322
Cumulative year's total† to	Dec. 31	$5,144	......	$4,025
Merchandise Imports†	Dec.	344	281	254
Cumulative year's total† to	Dec. 31	3,346	......	2,626
RAILROAD EARNINGS				
Total Operating Revenues★	Feb.	$462,486	$480,691	$358,413
Total Operating Expenditures★	Feb.	327,653	348,781	255,590
Taxes★	Feb.	56,736	51,163	34,669
Net Rwy. Operating Income★	Feb.	66,486	68,966	58,136
Operating Ratio %	Feb.	70.85	72.56	71.31
STEEL				
Ingot Production in tons★	Mar.	7,393	6,521	7,124
Pig Iron Production in tons★	Mar.	5,113	4,458	4,704
Shipments, U. S. Steel in tons★	Mar.	1,781	1,617	1,720
GENERAL				
Paperboard, new orders (st)	Feb.	508,272	581,502	470,671
Machine Tool Output (millions of $)	Feb.	93	85	57
Railway Equipment Orders (Ry)				
Locomotives	Feb.	169	25	127
Freight Cars	Feb.	11,085	8,479	5,645
Passenger Cars	Feb.	......	......	45
Cigarette Production†	Mar.	17,016	16,628	15,529
Bituminous Coal Production★ (tons)	Mar.	47,400	43,840	47,996
Portland Cement Shipments★ (bbls.)	Feb.	8,285	9,120	7,456
Commercial Failures (c)	Feb.	916	962	1,129

PRESENT POSITION AND OUTLOOK

According to the Department of Commerce, **new orders** booked by durable goods manufacturers during February were 26% ahead of January and 88% above February, 1941. **Shipments** were up 7% and 31%, respectively. In the case of non-durables, new orders in February were 7% ahead of January and 41% above February, 1941; while shipments rose by like amounts. **Income payments** in February reached the annual rate of $107.4 billion. Factory hourly **wages** in February averaged 88c, against 76.4c a year earlier, while average hours worked per week rose to 42.4, from 41.0 in February, 1941.

* * *

At present writing, **price advances** over last year average 19% at both retail and wholesale; but wholesale prices for goods other than food and farm products are up only 11%. Thus far prices have been held in much better control than during the comparable period of World War I. From the outbreak of war in Europe through the first four months of U. S. participation, wholesale prices for goods other than food and farm products rose 85% in the first war against only 19% in the present conflict.

* * *

During March, chain **store sales** were 23.9% above last year, compared with a 27.6% rise for the first quarter; mail order sales gained 18%, compared with 22.4% for three months; and variety store sales rose 17.6%, against 21.4%. Reflecting an earlier Easter this year, department store sales in the week ended April 11 were 12% below the corresponding week last year, compared with gains of 14% for four weeks and 23% for the year to date. **England's retail trade** is currently running between 33 1/3% and 50% below 1940, according to a recent survey by the National Industrial Conference Board.

* * *

Railroad earnings are being lifted by heavier loadings per car and by a rising proportion of higher rate freight, particularly armament shipments. March gross of $530 million, for example, was the largest for any month since October, 1929, yet freight loadings were nearly 100,000 cars a week below last year's peak. Western roads now enjoy a heavy two-way traffic, to and from the Pacific coast, whereas normally about 80% of their freight cars move westward empty. Eastern carriers, on the other hand, have had to embargo freight to east coast ports because of ship shortage. Carriers are somewhat concerned over looming labor shortage.

* * *

W P B has banned all civilian residential building costing more than $500; but expects **construction** total to reach $14 billion this year—$3 billion above 1941. Newsprint Association of Canada says there will be enough **newsprint** to meet regular requirements of the Canadian industry's contract customers in the U. S. and Canada throughout 1942.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Apr. 18	126.3	125.9	106.5
ELECTRIC POWER OUTPUT				
K. W. H.†	Apr. 18	3,308	3,321	2,897
TRANSPORTATION				
Carloadings, total	Apr. 18	846,562	814,233	708,793
Grain	Apr. 18	36,172	33,861	33,512
Coal	Apr. 18	166,618	160,646	33,404
Forest Products	Apr. 18	49,718	46,867	40,894
Manufacturing & Miscellaneous	Apr. 18	379,633	364,600	344,833
L. C. L. Mdse	Apr. 18	129,426	132,367	161,009
STEEL PRICES				
Pig Iron $ per ton (m)	Apr. 21	23.61	23.61	23.61
Scrap $ per ton (m)	Apr. 21	19.17	19.17	19.17
Finished c per lb. (m)	Apr. 21	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Apr. 25	97.2	97.6	96.0
PETROLEUM				
Average Daily Production bbls.★	Apr. 18	3,545	3,543	3,753
Crude Runs to Stills Avge. bbls.★	Apr. 18	3,548	3,518	3,735
Total Gasoline Stocks bbls.★	Apr. 18	103,502	104,580	97,377
Fuel Oil Stocks bbls.★	Apr. 18	82,577	82,526	93,499
Crude—Mid-Cont. $ per bbl	Apr. 14	1.17	1.17	1.02
Crude—Pennsylvania $ per bbl	Apr. 14	2.23	2.23	1.78
Gasoline—Refinery $ per gal	Apr. 14	.083	.083	.05⅝

PRESENT POSITION AND OUTLOOK

Electric power output continues to show a 15% increase over last year, with the largest gains reported from the Pacific coast. Eastern states are not benefiting so much from armament production and utilities there may be forced to seek higher rates as an offset to rising costs and taxes. The S E C, in its annual report to Congress, discloses no intention of postponing execution of the "death sentence," and has recently ordered the Commonwealth & Southern to proceed with simplification of its capital structure.

* * *

Shortages of scrap and necessitous banking of furnaces for repair have recently caused a slight dip in the **steel** operating rate.

* * *

Partly due to a recently authorized price advance along the Atlantic seaboard, **gasoline** price to dealers in 50 leading cities throughout the country now average about 1.67c (19%) higher than a year ago; but larger transportation costs and reduced consumption are cutting into profits on both coasts. Owing to a prospective shortage of light **fuel oil,** home owners are being advised to convert their furnaces to coal burning.

* * *

W P B directs that all production of **trucks** for civilian use must cease by May 31. The A A A estimates that long trips by **automobiles** have fallen 40%, and that gas consumption by private cars has dropped 20%, owing to tire and gas shortages. Prices for new tires and used cars are softening.

†Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., $909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1919-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (r)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st.)—Short tons.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

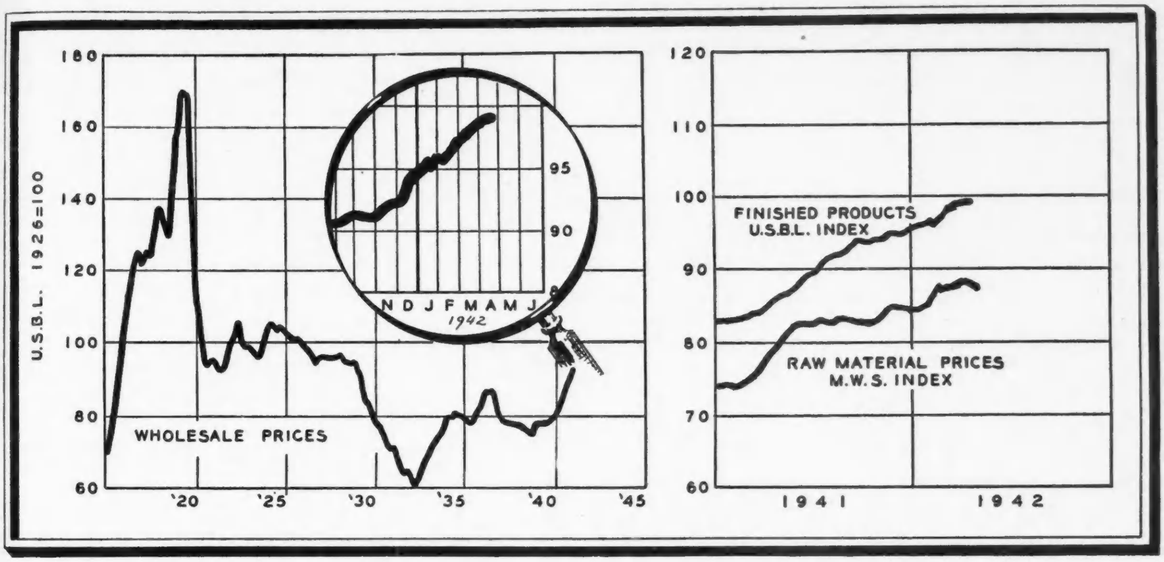
No. of Issues	(1925 Cl.—100)	1942 Indexes High	1942 Indexes Low	Apr. 18	Apr. 25
270	COMBINED AVERAGE	48.6	41.4	42.0	41.4k
3	Agricultural Implements	82.6	72.7	76.0	73.5
9	Aircraft (1927 Cl.—100)	172.6	137.6	141.0	137.6a
4	Air Lines (1934 Cl.—100)	245.0	178.4	178.4c	182.3
5	Amusements	31.7	27.0	27.8	27.0a
13	Automobile Accessories	79.3	70.7	71.8	71.1
13	Automobiles	9.7	7.1	9.1	9.2
3	Baking (1926 Cl.—100)	6.1	5.1	5.2	5.1
3	Business Machines	94.2	81.7	88.8	88.5
2	Bus Lines (1926 Cl.—100)	64.6	38.2	45.0	51.1
6	Chemicals	156.3	126.3	130.8	126.3b
14	Construction	19.6	16.4	16.7	16.4k
5	Containers	158.8	138.4	144.3	138.4h
8	Copper & Brass	75.1	61.6	63.2	61.6d
2	Dairy Products	27.8	25.5	26.2	25.5a
6	Department Stores	16.3	12.7	12.8	12.7d
6	Drugs & Toilet Articles	43.5	37.1	38.0	37.2
2	Finance Companies	114.0	99.5	105.8	104.5
7	Food Brands	78.6	60.6	60.6d	61.0
2	Food Stores	43.7	32.2	33.8	32.2d
4	Furniture	28.1	23.7	23.8	23.7a
2	Gold Mining	455.2	315.4	338.9	315.4n
6	Investment Trusts	16.5	13.8	13.8m	13.9

No. of Issues	(Nov. 14, 1936, Cl.—100)	1942 Indexes High	1942 Indexes Low	Apr. 18	Apr. 25
100	HIGH PRICED STOCKS	51.96	43.20	44.45	43.20t
100	LOW PRICED STOCKS	38.78	32.49	32.93	32.49a
3	Liquor (1932 Cl.—100)	159.9	137.5	140.0	137.5a
8	Machinery	83.8	67.9	70.5	67.9g
2	Mail Order	53.9	45.2	46.5	45.2g
4	Meat Packing	46.0	34.8	35.2	34.8a
9	Metals, non-Ferrous	131.7	101.8	109.0	101.8a
3	Paper	11.3	9.5	9.7	9.5c
21	Petroleum	74.6	59.8	61.6	59.8g
16	Public Utilities	19.1	13.8	13.8r	14.1
3	Radio (1927 Cl.—100)	7.5	5.9	6.7	7.0
7	Railroad Equipment	37.9	30.3	30.8	30.3d
16	Railroads	9.9	7.6	7.9	7.9
2	Realty	1.9	1.3	1.3	1.3
2	Shipbuilding	112.0	94.0	94.0b	94.4
12	Steel & Iron	65.0	54.7	56.6	54.7g
2	Sugar	40.1	29.1	30.9	29.1a
2	Sulphur	179.4	143.8	151.0	143.8b
3	Telephone & Telegraph	38.1	30.6	34.8	34.1
2	Textiles	34.2	24.4	24.4k	26.1
3	Tires & Rubber	9.4	7.9	9.1	9.2
4	Tobacco	55.3	40.7	41.1	40.7r
2	Variety Stores	187.2	147.7	148.9	147.7d
19	Unclassified	109.9	91.7	96.0	91.7a

New LOWS since: a—1941; b—1940; c—1939; d—1938; g—1935; h—1934; k—1933; m—1932; n—1931; r—1925; t—Nov. 14, 1936.

Trend of Commodities

Commodity markets, or at least those in which there still exists any incentive to take a trading position, were dominated by dullness and restricted price movements awaiting the President's address and subsequent message to Congress. The gist of the President's probable remarks had been pretty thoroughly publicized, but there was still a very apparent disposition on the part of traders to mark time. Everyone will concede that any practical steps to arrest the progress of inflation are justified and it is now rather generally recognized in Washington that the piecemeal efforts thus far taken have been something less than effective. Even so the rise in prices in the United States in the first two and a half years of war has been less than that which occurred in the same space of time during the World War. Notable exceptions, however, are found in farm prices and wages, which have far outstripped that for the World War period.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August 1939, equal 100

	Apr. 17	Apr. 24
28 Basic Commodities	166.9	167.0
Import Commodities	162.5	162.1
Domestic Commodities	169.8	170.3
Domestic Agricultural	184.9	184.9
Foodstuffs	185.8	186.4
Raw Industrial	153.8	153.6

Commodity Briefs

Cotton. It is the unanimous opinion of the cotton trade that a price ceiling on cotton would be unworkable and seriously hamper all phases of the industry. It is felt that the price question can be met by the judicious sale of Government owned cotton together with some modification in the present regulations governing C C C sales.

* * *

Wheat. On May 5 Commodity Credit Corp. will consider offers for the purchase of 1941 crop of wheat stored in warehouses and which will be turned over to the corporation at the maturity of loans on April 30, 1942.

* * *

Coffee. Sharp drop in receipts of coffee from Brazil and other sources have given rise to the fear that it may be necessary to evolve a rationing plan.

* * *

Sugar. Belief that the contemplated rationing of one half pound of sugar per person weekly will be modified in near future. Supplies may be larger than previously anticipated, with large shipments moving from Cuba to Florida. Increased shipping costs will be absorbed by Defense Supplies Corp.

* * *

Food. Talk of possible shortages originating in Washington seems ill-advised. This is one sure way of frightening consumers into hoarding and actually creating a shortage where one did not previously exist.

* * *

Copper. Recent production quotas released to a group of medium sized mines were uniformly high, with the result most of these mines will receive little or no benefit from the bonus to production in excess of quotas.

* * *

Rubber. It looks now as if there is good chance that at least 350,000 tons of synthetic rubber will be produced in 1943. This is half the ultimate output called for by the present program. Butyl and neoprene will add another 100,000 tons.

Answers to Inquiries

(Continued from page 91)

income available for the common stock equalled $1.60 a share, as against $1.36 in 1940. The company points out in its report that all plants operated at a high rate throughout the year and the increase in tonnages handled accounted mainly for the rise in earnings. During the year also, outstanding loans and serial notes totaling $3,092,500 were refunded by private sale of loan and serial notes totaling $3,000,000, the difference being paid off out of cash. Average interest rate on this new loan is said to be approximately 2.6 per cent. There was $375,000 of this indebtedness paid off during the year and after deducting $400,000 in instalments due, the total of outstanding notes stood at $2,225,000. Principal products of the company are sulphuric acid, iron sinter and copper. Normally about one-third of the acid output is sold to agriculture in the form of fertilizer, although present requirements of steel, textile and chemical concerns is heavy and percentage business likely is swinging strongly to such fields. Activity of the organization promises to be maintained at record high levels over the months ahead and since finances have been steadily improved, maintenance of a liberal dividend policy is indicated. We accordingly would still recommend that you maintain your position in the already held 200 shares of the stock, but are inclined to advise against over-extending your holdings in any one situation.

Cerro de Pasco Copper Corp.

Can you give me 1941 earnings for Cerro de Pasco, as well as your opinion of the security of the $4 dividend, and your appraisal of my holding of 100 shares purchased at 49. I understand that the company is selling the major portion of its copper production to the U. S. Government, but wonder whether the price now paid is sufficient to take care of higher costs of labor, taxes and transportation. Is the increased lead and zinc production being disposed of? —*M. R. F., New Orleans, La.*

With mining operations conducted on a large scale in Peru, the Cerro de Pasco Copper Corp. was normally heavily dependent upon the European and other world markets. Since these have been hard hit by the war, the company has looked increasingly to the United States and, when last reported, this government was absorbing the bulk of the copper output. Since lead and zinc are also highly essential to the successful prosecution of our war efforts, these metals also promise to be taken in increasing amounts over the period ahead. That metal sales last year were well sustained is borne out by the company's annual report which shows total sales at $20,998,940, as compared with $19,790,501 in 1940. Due to higher operating costs and expenses, profits were reduced mod-

erately, but they still equalled $2.17 a share on the common stock, as compared with $2.40 a share in 1940. For several years now dividend payments on the stock have exceeded earnings. This has been made possible by the strong financial position of the enterprise, although it is to be doubted if this can be taken as indicating a continuance of this policy indefinitely. However, with the outlook for volume sales decidedly promising, and average prices better than last year, no serious downward revision in distributions to shareholders seems likely, and on the basis of recent market quotation the return to holders should compare favorably with other equities of this caliber. The company has recently added to refinery facilities for lead, zinc and other ores at a cost of approximately $4,500,000 and as this production become available, the company may well be able to improve its earnings position. From the longer range viewpoint, reopening of world markets holds definite promise of worthwhile earnings revival. In the meantime, the demand for metals by the United Nations should enable the organization to sustain volume sales, although the matter of transportation may prove troublesome. When the dominant position of the company in the world metal market is taken into account, together with its long record of satisfactory earnings and dividend payments, we cannot but believe that the current depressed market for the stock will prove of passing significance and that further patience on your part will be amply rewarded. As previously indicated, recent years earnings emphasize the fact that maintenance of dividends at the rate of $4.00 a share is open to question but that fact appears already largely discounted in prevailing quotations for the stock.

United Aircraft Corp.

Because of United Aircraft stabilizing profits at pre-war levels, I am very anxious to know how your analysts feel regarding the common stock . . . its appreciation possibilities, etc. Will earnings and dividends be adversely affected, particularly in view of much higher taxes and labor costs? Or will increased volume and greater efficiency offset these factors? I own 100 shares of common, acquired at 42; and did not take advantage of the option on the new preferred issue. What is your opinion?—J. F. C., Tulsa, Okla.

It has been estimated that the greatly expanded plant capacity and production schedules of United Aircraft Corp. in the current year will enable the company to more than double the $307,151,587 sales figure reported for the year 1941. Because of the announced intention of the management to pass on the benefit of reduced unit costs resulting from mass production to the Government and to stabilize profits at pre-war levels, however, it is to be doubted if profits this year will equal those of last. As you know, the company reported for the year 1941 earnings equal to $6.29 a share on the common stock, as compared with $5.81 a share earned in 1940. In addition to the indicated narrowing of profit margins for the duration of the war, higher taxes are definitely in the cards and there is also the preferred requirement which approximates 50 cents a share on the common. Notwithstanding these factors, it is indicated that the company will be able to continue to pay liberal dividends to holders of the junior equity and net earnings, on the basis of the higher volume of business in prospect, should not decline greatly from the level of last year. In connection with the annual report, the management emphasizes the dominant role being played by the company in the extension of the country's war effort. Output of the important propeller division is said to have already passed the previously set production goal and by licensing other manufacturers to produce Pratt & Whitney engines as well as planes, considerable progress evidently lies directly ahead. In the Pratt & Whitney engine division, such prominent manufacturers as Nash Kelvinator, Ford, Buick and Chevrolet have been licensed to produce engines and the Vought-Sikorsky airplane division is said to be ahead of the previously established "impossible" quota and gaining constant headway. As one of the best diversified of the domestic aircraft manufacturers, producing engines and propellers in addition to planes for both military and commercial purposes, the long range outlook is promising. During the war, of course, sales will be almost exclusively for military purposes

BUY WAR BONDS!

and as indicated above, the profit margin is now headed lower. At the close of last year, the corporation had on hand unfilled orders of $485,518,787 and there were under negotiation with the Government additional contracts which would considerably increase that figure. Finances at the close of the year were excellent, with current assets amounting to $170,061,063, comparing with current liabilities, including $47,046,641 advances on sales contracts, amounting to $137,-445,038. The balance sheet reveals cash alone of over $31,000,000 supplemented by $30,000,000 in U. S. Treasury tax notes. In view of the dominant position occupied by the organization in the aircraft industry and its promising business prospect, we regard the stock as an excellent one for representation in this group and at present prices advise full retention of your holdings.

Cutler-Hammer, Inc.

The overall picture of Cutler-Hammer appears so bright that I cannot see why the stock is not selling considerably above the 14-15 level. Do the earnings of $2.27 for last year indicate that the $1.50 annual dividend will be maintained? During the last quarter of 1941, however, the net was well below that for the same period in 1940. Is this only a temporary decline or does it mean that higher taxes and operating costs are cutting into profits? Would you take advantage of the present level to average on 150 shares which cost me 29?—J. C. S., Boston, Mass.

Cutler-Hammer, Inc., manufactures a broad list of electrical equipment, including various control devices, such as heat and steam regulators, motor starters, magnetic clutches, switch boxes and numerous other related items. Because of the fact that these products are needed by a wide variety of industrial concerns, the company naturally has benefited to a marked degree from the generally high rates of manufacturing activity throughout the country. At the close of 1941, unfilled orders on the company's books are understood to have been at the highest level in its history. Since the major portion of output in going to makers of products essential to our war effort, the matter of priorities should work out to advantage in the securing of necessary raw materials. For the full year 1941, earnings amounted to $1,498,616, or the equivalent of $2.27 a share on the 659,998 shares of

capital stock outstanding. This compared with a net of $1,280,894, or $1.94 a share the year before. Taxes were sharply higher in 1941 and this factor tended to restrict the gain in net, although it still was impressive. With no funded debt or preferred stock outstanding ahead of the common, the latter should continue to enjoy a liberal dividend payment. Present low quotations for the stock in relation to indicated earning power doubtless reflect the uncertainty with regard to future corporation income and excess profits taxes. Even allowing for an almost certain increase in these levies, however, the outlook for the organization's business is such as to suggest that distributions to shareholders will be well maintained, probably at around the $1.50 level. If your commitmentment would not be unduly large in relation to the balance of your portfolio, we could see little reason to oppose averaging at such time as the general market outlook warrants a buying policy.

If War Is Prolonged

(Continued from page 65)

the number of women in proportion to men reached the astounding ratio of 17 to 1—and that figure was for the entire population of the community. In the range of 20 to 35, or the best marriageable and reproductive years, the ratio was considerably higher in favor of women.

War does more than upset the financial equilibrium of a nation; more than disrupt its social life; add to the ranks of the blind, crippled and invalided; it leaves serious psychological deficiencies. If our lives are seriously disrupted because of war it is absurd to think we can immediately readjust ourselves when peace comes. We can't just pick up where we left off and review the war as a sort of bad dream and nothing else.

In fact, we can never pick up where we left off. The world will never be the same as it was before Hitler went on the war path. The day Hitler invaded Poland and Britain and France took up cudgels for the Poles and the United States aligned itself on the side of the enemies of democracy, that world died and cannot be resurrected.

All economic changes which occur during war are not permanent. Admitting that fact, we must not forget that nothing remains static. If we are not marching ahead we must, perchance, be going backward—we simply cannot just mark time. War is a form of revolution, economic revolution. Our sense of values is changed. The aristocracy of wealth gives way to the aristocracy of labor with the military man king of them all—pro tempora. Those who owe their existence to incomes derived from common stock or bonds find that huge increases in corporate taxes

are reflected in the dividends they receive. In most cases those dividends are reduced considerably, in a few cases by as much as 60 per cent. While their holdings appreciate but slightly (and often depreciate if the stock is in some industry which cannot readily convert to war needs), actual earnings are far less than increased living costs, increased personal taxes and other liabilities. Not only that but the actual security of some of the issues is threatened.

During peace the only time we are conscious of our government is at elections or when some piece of legislation has been proposed or passed which affects us personally. The remainder of the time we view government as a sort of paternalistic institution, necessary in a vague sort of way, and something of which we are proud of in a still vaguer fashion. But since Hitler broke his leash and started to ravage Europe, government, our own government, has played a steadily increasing role in our daily lives. This government has gone into business. This government, preparing for the war, and to insure successful prosecution of the war, has taken over an ever increasing number of responsibilities and functions which formerly were left entirely to private enterprise. The Government of the United States, still wearing the scars of the last war, as well as the bruises it suffered during the depression, has been fortifying itself for the peace which is bound to come.

If individuals profit by experience, nations must do the same. The lesson of high wages and high living costs of the last war, contrasted with unemployment, low wages and reduced national income, has not been forgotten. Even as these lines are being written Washington bigwigs are laying the groundwork for legislation which will compel Americans to save; compel Americans to serve their country in some capacity or another, if called upon; and arbitrarily fix wages, prices and ration consumer goods.

We are confronted with a strange situation. We, who fight for democracy, must sacrifice some of the principles of our democracy in order to preserve the democratic way of life for the entire world. We cannot prosper in a bankrupt world. We cannot hope to win the peace if we destroy the rest of the world. We cannot live alone and like it, for the simple reason, due to the famed Atlantic Charter, we are guaranteeing the "American" way of life for the "have not" nations of the world as well as for ourselves. We cannot hope to restore and raise our own standard of living by reducing the standard of living in other lands. We cannot exist without foreign trade, and we cannot trade abroad if we destroy the purchasing power of our customers.

For centuries each succeeding war has created a definite change in the social order. Since Knighthood was in Flower and the masses lived on leaks and cabbages, through the ages until the aristocracy of birth gave way to the aristocracy of wealth, and accomplishment, more persons, especially in this country, have participated in the national wealth. We have established a standard of wealth and of living for the bulk of our people which we will have difficulty in maintaining.

Through enforced saving; curtailment of purchases; cessation of private home building; increased taxation; limitation of profits, freezing of wages and other artificial means of preventing inflation, we are building up a cushion of security for the mass of the people a cushion which will be sorely needed when peace comes and a period of readjustment is necessary. The creation of large surpluses by industry is the collective cushion of business; the wooing and developing of potential markets by the government is the national cushion and freedom from immediate future attack releases energy to be used in creating more permanent wealth.

Those who believe history repeats itself without variation are poor historians. History repeats itself in principle, but not otherwise. If depression follows boom; if war is succeeded by peace and a reduction in national income, that does not necessarily mean in the same proportions each time we have a war or a boom. The United States today is in the insurance business. The government is writing the greatest surety bond ever written. We are writing a new kind of insurance, a new type of security guarantee, predicated upon forced saving. If the war lasts several years and the machinery of saving and creating new outlets for our peace time production are increased, much of the sting of post-war depression will be obliterated.

The British Empire is dead. The British Commonwealth of Nations is fighting desperately for its life. When this war ends the British Commonwealth of Nations will step aside, through necessity and not choice, and world leadership will fall into the lap of Uncle Sam. *World Leadership, not world dominance.* There is a vast difference between the two.

Despite the inroads made into our national wealth due to the war; despite lend-lease instead of outright loans to allies, we will still be the world's greatest creditor nation. Most of the world will be in our debt, one way or another. We will have to protect ourselves by world leadership; we will have to forego out isolationism and participate politically as well as economically in the world picture. Washington, not London, will be the world capital. Washington, not the Bank of England, will rule the money market. Commodity prices will be fixed in New York, Boston, San Francisco and Minneapolis, not in London, Liverpool, Paris, Berlin or Timbuctoo.

American business and American workers will have the whole world as their field—but not their oyster. Indications are that our government is aware of these things and making preparations for them. To be bullish and predict an era of prosperity immediately following the war is stupid. To predict a debacle, an economic chaos, is to be unacquainted with the facts. We are faced with a tough battle—first to win the war and then to preserve the peace. But it is not a hopeless fight. It will not mean the American way of life will be destroyed—that state capitalism will replace private wealth; that the fruits of victory will be the loss of rugged individualism. It means none of these things.

But, and this is all important, it does not mean restoration of the status quo of 1939. It does not mean we can simply forget the war and do business as before. There are bound to be important economic changes of a permanent nature. Our industrial life will have to be re-geared for peace—new markets will have to be developed and exhausted

inventories replenished. At this stage of the war—and much can and will happen before peace is declared —we cannot see any industrial paralysis, any large scale unemployment such as occured before. We will be cushioned against immediate want and, in most cases, be able to weather the readjustment period.

A world under American leadership in union with the British Commonwealth of Nations, should be a more secure place in which to live, to build up a business, to sire an industry or to invest your money. Peace costs money as well as blood and sweat and tears; lots of it, but peace bought on our terms, the terms laid down in the Atlantic Charter, should be a good investment, pay rich dividends and make it more and more difficult for the mad dogs of Europe and Asia to spring upon the world and repeat what has happened since 1914.

Office Equipments Convert To War

(*Continued from page 80*)

or refinements or simply additions to the old ones.

One of the companies is going so far as to plan a series of monthly meetings where new ideas will be discussed and inducements offered for improvements which can be applied to models released after the war. Practically all of the business machine companies were preparing to release new models when war was declared and possibilities of marketing peace time machines was halted. Those models, new in 1942, will certainly still be new when the war ends, even though some improvements may result from additional research.

Even if there were no new models and the industry merely continued manufacturing models now proved to be popular and in demand, the post-war demand would be ample to prevent any immediate slump in the market. Another factor which is worthy of consideration is that only 6 per cent of the world's accounting is now being done on modern business equipment. With world leadership shifted to the United States, and with this country playing a dominant role in the industrial life of the world after the war; with American firms expanding and opening branches in foreign lands, as is bound to happen, if, after winning the war, we guarantee victory by the right kind of a peace, the number of firms using business machinery will no doubt increase in a large measure, for, of the six per cent now using business machines, a vast percentage are American firms. There is still a large field waiting for business machines of all types.

The problem of converting from

civilian production to war production was considerable. New machinery had to be installed; new dies supplied and workmen, in many instances, trained to operate the new equipment. Considerable expansion was necessary, both in new plants and additions to existing ones. But the task of re-converting will be much more simple. In the first place the original machinery, in most cases, has simply been removed and stored away and will be available for use again as soon as war equipment can be removed and the old machinery installed. Only a small segment of the peace time machinery was found adaptable for conversion for war needs. Labor too will be immediately available and won't require any special training. Artisans will be able to go back to their machines and work benches and pick up where they left off.

Most of the business machines companies are protecting themselves financially against the time when they will have to reconvert. There will be few engineering problems to be met with when that time arrives, and there will be no difficulty in financing the change-over. Surpluses are being increased quarterly for that specific purpose and even though taxes rise even more and net incomes are consequently decreased, a certain percentage of the gross, which is increasing steadily, will find its way into reserve funds provided for just such contingencies.

However, in summing up the business machine industry from the standpoint of the investor, it must be kept in mind that, like most industrial issues, stock in these companies is largely speculative. Earnings are bound to fluctuate; conditions are certain to be subject to change, and no definite yardstick can be used to estimate potential values. As taxes increase and definite limitations are placed upon profits accruing from war industries (at present the bulk of the business machine income), gross sales will skyrocket into new highs, but net profits and dividends will drop.

It becomes evident then that as long as the war lasts the business machine industry will be kept going full blast manufacturing munitions and such supplies as are needed for government agencies or are permitted to be sold to private enterprise. There won't be any dearth of income; no problem of developing markets and no headaches over large inventories. And after the war, even if it were to end within a few months, there will be a demand for business machines of all types. Therefore, it is evident that lack of business won't hamper this vital industry, although government regulation, paucity of raw materials, increased cost of operation and ever-rising taxes will take the edge off profits and hold dividends down to below those paid during 1941 until such time as tax reductions are again possible.

American Telephone and Telegraph

(*Continued from page* 71)

than those suggested by the Treasury. Much informed opinion inclines towards the belief that the normal and surtax rates eventually decided upon will be nearer 45 per cent than 55 per cent. In that event the company's net income might be reduced by only slightly over $2 a share.

Obviously, therefore, taxes are the most important consideration as far as both earnings and dividends are concerned. The present uncertainty leaves a rather wide range of possibilities. Under the most favorable circumstances a dividend rate of $7 might be justified. The most unfavorable developments might call for a reduction to $5 or even less. Whether the stock, which recently made a new low for the year below 105 has fully discounted these prospects can not be determined until more is known about the final form of the 1942 Revenue Act.

As I See It!

(*Continued from page* 57)

onies. If the officers of the French Navy rebel against Laval's rule also, Hitler will have lost all the advantage he had hoped to gain by installing Laval as his puppet. It was the "last-ditch" act of a man clinging to the ropes.

Turkey's unwillingness to succumb to Nazi blandishments and threats may be taken as another sign of Nazi weakness. For the Turks are very shrewd politically and apparently are holding out against Hitler despite the humiliating defeats suffered thus far by the United Nations.

In my last editorial I spoke about the attitude of Nazi officialdom towards Japanese successes. The evidence coming out of Germany would indicate it does not set well with the German people either who fear that their great sacrifices may have been in vain—that Japan has been the real gainer thus far.

It is reasonable to believe that the German people will not continue to weaken themselves under these circumstances—and that already they are planning a way out of their difficulties to prevent the United Nations from dealing them a death blow. They know as well as we do that this war cannot go on much longer without their feeling the direct impact in Germany proper. This psychological weakness is our opportunity to win the war if we strike boldly *now*.

Four Stocks with High Quick Assets and Good Earnings

(*Continued from page* 90)

refined products which are sold to processors and manufacturers of shortenings, margerines and salad dressings. Prices of fats and oils exert a marked effect on earnings. Profits will be subjected to higher taxes during the 1943 fiscal year, but further improvement in the asset position is probable. The stock recently sold at 12.

Market Enters Decisive Phase

(*Continued from page* 59)

worse than it is by setting up large contingency reserves. The future may or may not justify this caution. The point we make is that the money thus set aside is *profit*, though it is not so reported.

The price ceilings, expected to be announced in detail by Mr. Henderson before these words reach you, are not an important new market factor except to the merchandising securities and a relatively few others —and even these at least in substantial measure may have discounted the development.—Monday, April 27.

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»» • ««

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»» • ««

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»» • ««

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Measuring Profits for Metals Under Today's Conditions

(Continued from page 74)

known, and their probable effects can be appraised. Fairly complete data are available on the production plans of most leading companies. The effects of prices, likewise, can be estimated with some degree of assurance. Although earnings estimates are not yet practicable, the statistical background is sufficiently clarified to permit an intelligent selection of investment holdings.

1942 Earnings and Dividend Prospects in the Face of Freezing of Profits—Wages—Prices

(Continued from page 62)

the present economic situation have been emphasized by Mr. Baruch. He favors industrial mobilization, stressing cooperation of industry, labor and Government, with reliance on industrial self-policing, and he favors the suspension of the operation of the Sherman Anti-Trust Act for the duration of the war.

That the bulk of the American people agree with those advocating a drastic pay, price control law is evidenced by the result of the poll conducted early this month by Dr. George Gallup and his American Institute of Public Opinion. They voted on the question, "A law in Canada keeps wages and salary rates from going higher than they are now and also keeps all prices, including prices of farm products, from going higher. Would you approve or disapprove of such a law

in the United States?" The answer was a definite "yes." Sixty-six per cent voted approval, 24 per cent disapproved and 10 per cent were undecided. Skilled, semi-skilled and unskilled labor voted 63 per cent approval; 26 per cent against, and 11 per cent undecided; while farmers voted 64 per cent in favor, 27 per cent against and 9 per cent undecided.

The question, however, is not one-sided. While this is no brief against price curbing or other anti-inflation legislation, it must be pointed out that actual figures don't exactly support the theory that American workers are throwing away their war earnings. Figures just issued by the Department of Commerce declare that "roughly 50 per cent of the expansion in consumer income during recent months has been saved." This means voluntary saving, it must be remembered. The review of consumer expenditures and savings for the past two years states: "It is generally recognized that the inflationary gap in 1942 will be large, but the behavior of the expenditure-income relation and the rapid growth in the rate of saving by individuals during recent months is an encouraging sign, suggesting that the gap may well prove to be somewhat smaller than has been forecast by some estimators."

The report continues that despite a large increase in savings last year, consumer expenditures rose by $10,000,000,000. More than 80 per cent of the increase in spending between January, 1941, and last January was accounted for by the rise in prices.

Aggregate consumer expenditures declined somewhat in the last quarter of 1941. This contraction followed a buying wave prompted by prospects of shortages, higher prices and additional Federal income taxes. The same situation existed in a lesser degree in anticipatory purchases for January and February of this year.

"Disposable income" of consumers rose from $80,000,000,000 in January, 1941, to $96,400,000,000 in January, 1942, and $97,500,000,000 in February. At the same time savings rose from $10,400,000,000 in January, 1941, to $15,900,000,000 by January, 1942, and $18,400,000,000 in February. Consumption expenditures rose from $72,000,000,000 in February, 1941, to $79,100,000,000 by February, 1942, and in that month $8,900,000,000 of the expansion was accounted for by increases in the cost of living.

To estimate successfully the probable result of price freezing and other anti-inflationary legislation it is worth while to consider just where shortages are going to be felt by the consumer. In finished goods and staples, such items as these head the list: bicycles, electric appliances, flashlights and batteries, furniture (metal household), household utensils, lamps, both fluorescent and portable electric; fasteners, office equipment and furniture, office machinery, office supplies, outboard motors, plumbing fixtures, radiators, razors and blades, metal signs, toys and games, collapsible tubes, vacuum cleaners, vending machines and window metal.

Shortages in raw materials exist on antimony, goatskin, honey, hydrol, molasses, rapeseed oil, rotenone and shellac.

On the import list shortages loom in bananas, cocoa, coffee, pepper, Scotch whiskey, spices, sugar and tea.

If an excess profits tax of 90 to 99 per cent above 6 per cent return on invested capital is enacted into law, it will certainly play hob with values of many securities. But Congress is not likely to go along on any such revolutionary formula, although it certainly will vote much heavier excess profits taxes under the two optional methods of calculation now in effect.

With price freezing, which already exists in many lines, and much higher taxes, the possibility of dividends equal to the total of last year is small indeed. As far as market prices for securities are concerned there is one grain of comfort. Many of our securities have been far underpriced in relation to earnings. A depreciation of earnings should, in many cases, merely serve to take up the slack between earnings and price. For instance, market prices averaged well above current levels in 1939 when industrial earnings were only a quarter of the present level.

Among listed common stocks, the most important victims of blanket price ceilings will be the merchandising enterprises. The merchant's ability to control his mark-up, or the difference between what he pays for goods and what he gets for them, has always been vital not only to his profits but to his survival. In a price ceiling economy Mr. Henderson's O P A in effect controls the mark-up. No doubt it will permit survival of the more efficient merchants, but among the small fry of trade there are probably many casualties ahead, as the record in England suggests. Between narrowed mark-up, higher operating costs and steep taxes, earnings and dividends of the great majority of merchandising companies will in future be substantially lower than at present.

But for the bulk of all listed stocks, price control is either not a new factor or is dwarfed in investment significance by other considerations. In the case of all rails and utilities, fixed rates are an old story and ceiling prices on commodities, plus informal wage stabilization, would aid them to some extent by restraining rise in operating costs. All metals, all basic raw materials except farm stuff, many chemicals and dozens of other "key" prices already are under effective Federal control, whether formal or informal. Quite aside from this, all producers selling wholly or mainly to the Government are, in fact, price-fixed. Hence broadened price controls have no bearing on your holdings in such industries as steel, non-ferrous metals, copper and brass fabricators, machinery and machine tools, rail and farm and electrical equipments, aircraft, ordnance, motors and accessories, shipbuilding, etc.

Aside from merchandising, the consumer stock groups likely to be adversely affected by the new price situation—the varying effects not being subject to precise forecast until Mr. Henderson more fully reveals the actual cards in his deck—include packaged foods, tobaccos, textile and apparel, drugs and proprietary products, liquor, soft beverages, etc.

But it is very doubtful if all prices will be literally "frozen" in any event. As instances of maladjustment and injustice crop up, many ceilings will be upped. So higher taxes, rather than prices, will be the No. 1 investment worry for some time to come. On this the Administration poses, but Congress disposes —and Congress will stop well short of wrecking our private enterprise system by making profits extinct.

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